

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

March 30, 2009

1934 Act Registration No. 1-14700
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of March 2009

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

**Taiwan Semiconductor Manufacturing
Company Limited
Financial Statements for the
Years Ended December 31, 2008 and 2007 and
Independent Auditors Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, effective January 1, 2008, Taiwan Semiconductor Manufacturing Company Limited adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors issued by the Accounting Research and Development Foundation of the Republic of China and relevant requirements promulgated by the Financial Supervisory Commission of the Executive Yuan.

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We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the years ended December 31, 2008 and 2007, and expressed an unqualified opinion with an explanatory paragraph relating to the adoption of Interpretation 2007-052 and an unqualified opinion, respectively, on such consolidated financial statements.

January 17, 2009

Notice to Readers

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

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

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Taiwan Semiconductor Manufacturing Company Limited**BALANCE SHEETS****DECEMBER 31, 2008 AND 2007****(In Thousands of New Taiwan Dollars, Except Par Value)**

	2008		2007	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 138,208,360	26	\$ 72,422,102	13
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	42,460		42,083	
Available-for-sale financial assets (Notes 2, 6 and 23)			22,267,223	4
Held-to-maturity financial assets (Notes 2, 7 and 23)	5,881,999	1	11,526,946	2
Receivables from related parties (Note 24)	11,728,204	2	26,701,648	5
Notes and accounts receivable	11,441,176	2	17,911,328	3
Allowance for doubtful receivables (Notes 2 and 8)	(436,746)		(688,972)	
Allowance for sales returns and others (Notes 2 and 8)	(5,868,582)	(1)	(3,856,685)	
Other receivables from related parties (Note 24)	489,742		525,308	
Other financial assets	711,755		331,698	
Inventories, net (Notes 2 and 9)	12,807,936	2	20,987,142	4
Deferred income tax assets (Notes 2 and 17)	3,650,700	1	5,268,000	1
Prepaid expenses and other current assets	1,192,475		861,465	
Total current assets	179,849,479	33	174,299,286	32
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 23)				
Investments accounted for using equity method	109,871,178	20	113,048,081	21
Available-for-sale financial assets	2,032,658	1	1,397,186	
Held-to-maturity financial assets	11,761,325	2	8,697,726	2
Financial assets carried at cost	519,502		748,160	
Total long-term investments	124,184,663	23	123,891,153	23
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)				
Cost				
Buildings	114,014,588	21	101,907,892	18
Machinery and equipment	635,008,261	118	589,131,625	107
Office equipment	9,748,869	2	9,167,107	2

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	758,771,718	141	700,206,624	127
Accumulated depreciation	(557,247,254)	(103)	(486,725,019)	(88)
Advance payments and construction in progress	17,758,038	3	21,082,953	4
Net property, plant and equipment	219,282,502	41	234,564,558	43
INTANGIBLE ASSETS				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2, 13 and 24)	6,401,461	1	7,172,413	1
Total intangible assets	7,969,217	1	8,740,169	1
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 17)	6,497,972	1	7,241,933	1
Refundable deposits	2,719,737	1	2,741,538	
Others (Note 2)	55,677		293,986	
Total other assets	9,273,386	2	10,277,457	1
TOTAL	\$ 540,559,247	100	\$ 551,772,623	100

**LIABILITIES AND SHAREHOLDERS
EQUITY**

CURRENT LIABILITIES

Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23)	\$ 83,618		\$ 247,646	
Accounts payable	4,314,265	1	9,485,818	2
Payables to related parties (Note 24)	1,202,350		2,999,630	
Income tax payable (Notes 2 and 17)	9,222,811	2	10,977,963	2
Bonuses payable to employees and directors (Notes 3 and 19)	15,148,057	3		
Payables to contractors and equipment suppliers	7,574,891	1	5,389,740	1
Accrued expenses and other current liabilities (Note 15)	7,553,475	1	14,700,013	3
Current portion of bonds payable (Note 14)	8,000,000	2		
Total current liabilities	53,099,467	10	43,800,810	8

LONG-TERM LIABILITIES

Bonds payable (Note 14)	4,500,000	1	12,500,000	3
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Other long-term payables (Note 15)	931,252		1,501,462	
Total long-term liabilities	5,431,252	1	14,001,462	3
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	3,710,009	1	3,657,679	1
Guarantee deposits (Note 26)	1,479,152		2,240,677	
Deferred credits (Notes 2 and 24)	462,256		980,593	
Total other liabilities	5,651,417	1	6,878,949	1
Total liabilities	64,182,136	12	64,681,221	12
CAPITAL STOCK NT\$10 PAR VALUE (Notes 19 and 21)				
Authorized: 28,050,000 thousand shares				
Issued: 25,625,437 thousand shares in 2008				
26,427,104 thousand shares in 2007	256,254,373	47	264,271,037	48
CAPITAL SURPLUS (Notes 2 and 19)	49,875,255	9	53,732,682	10
RETAINED EARNINGS (Note 19)				
Appropriated as legal capital reserve	67,324,393	13	56,406,684	10
Appropriated as special capital reserve	391,857		629,550	
Unappropriated earnings	102,337,417	19	161,828,337	29
	170,053,667	32	218,864,571	39
OTHERS (Notes 2, 21 and 23)				
Cumulative translation adjustments	481,158		(1,072,853)	
Unrealized gain (loss) on financial instruments	(287,342)		680,997	
Treasury stock: 834,096 thousand shares			(49,385,032)	(9)
	193,816		(49,776,888)	(9)
Total shareholders' equity	476,377,111	88	487,091,402	88
TOTAL	\$ 540,559,247	100	\$ 551,772,623	100

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

(With Deloitte & Touche audit report dated January 17, 2009)

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 24)	\$ 330,228,027		\$ 319,167,299	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	8,460,944		5,519,655	
NET SALES	321,767,083	100	313,647,644	100
COST OF SALES (Notes 18 and 24)	183,589,540	57	176,223,224	56
GROSS PROFIT	138,177,543	43	137,424,420	44
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2)	72		(265,106)	
REALIZED GROSS PROFIT	138,177,615	43	137,159,314	44
OPERATING EXPENSES (Notes 18 and 24)				
Research and development	19,737,038	6	15,913,834	5
General and administrative	9,895,617	3	7,660,776	3
Marketing	2,254,728	1	1,332,657	
Total operating expenses	31,887,383	10	24,907,267	8
INCOME FROM OPERATIONS	106,290,232	33	112,252,047	36
NON-OPERATING INCOME AND GAINS				
Interest income (Note 2)	2,728,892	1	2,634,636	1
Foreign exchange gain, net (Note 2)	1,113,406	1	71,128	
Settlement income (Note 26)	951,180		985,114	
Technical service income (Notes 24 and 26)	619,237		712,162	
Gain on settlement and disposal of financial assets, net (Notes 2 and 23)	452,159		271,094	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 24)	298,772		305,201	

Equity in earnings of equity method investees, net (Notes 2 and 10)	72,568		5,468,230	2
Others (Note 24)	489,411		658,227	
Total non-operating income and gains	6,725,625	2	11,105,792	3

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Valuation loss on financial instruments, net (Notes 2, 5 and 23)	\$ 1,230,966	1	\$ 924,316	
Interest expense	355,056		584,736	
Loss on impairment of financial assets (Notes 2 and 11)	247,488			
Loss on impairment of idle assets (Note 2)	210,477			
Provision for litigation loss (Note 26h)	99,126		1,008,635	
Others (Note 2)	113,926		88,746	
Total non-operating expenses and losses	2,257,039	1	2,606,433	
INCOME BEFORE INCOME TAX	110,758,818	34	120,751,406	39
INCOME TAX EXPENSE (Notes 2 and 17)	(10,825,650)	(3)	(11,574,313)	(4)
NET INCOME	\$ 99,933,168	31	\$ 109,177,093	35

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 22)				
Basic earnings per share	\$ 4.27	\$ 3.86	\$ 4.49	\$ 4.06
Diluted earnings per share	\$ 4.24	\$ 3.83	\$ 4.49	\$ 4.06

Certain pro forma information (after income tax) is shown as follows, based on the assumption that the Company's stock held by subsidiaries is treated as available-for-sale financial assets instead of treasury stock (Notes 2 and 21):

	2008	2007
NET INCOME	\$ 100,035,447	\$ 109,278,855

EARNINGS PER SHARE (NT\$)

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Basic earnings per share	\$	3.86	\$	4.06
Diluted earnings per share	\$	3.83	\$	4.06

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

(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

Preferred Stock Shares (in thousands)	Common Stock Amount	Capital Surplus	Legal Capital Reserve	Retained Earnings		Total	Cumulative Translation Adjustments	Others Unrealized Gain (Loss) on Financial Instruments	Treasury Stock
				Special Capital Reserve	Unappropriated Earnings				
829,688	\$ 258,296,879	\$ 54,107,498	\$ 43,705,711	\$ 640,742	\$ 152,778,079	\$ 197,124,532	\$ (1,191,165)	\$ 561,615	\$ (91,111,111)
			12,700,973		(12,700,973)				
				(11,192)	11,192				
					(4,572,798)	(4,572,798)			
457,280	4,572,798				(4,572,798)	(4,572,798)			
					(77,489,064)	(77,489,064)			
51,659	516,594				(516,594)	(516,594)			
					(285,800)	(285,800)			
77,489	774,891	(774,891)							
		(28,639)			109,177,093	109,177,093			

								118,312	
10,988	109,875	326,952							
		101,762							
									24,325
									95,057
									(48,460)
427,104	264,271,037	53,732,682	56,406,684	629,550	161,828,337	218,864,571	(1,072,853)	680,997	(49,380)
			10,917,709		(10,917,709)				
				(237,693)	237,693				
					(3,939,883)	(3,939,883)			
393,988	3,939,883				(3,939,883)	(3,939,883)			
51,254	512,542				(76,881,311)	(76,881,311)			
					(512,542)	(512,542)			

					(176,890)	(176,890)		
76,881	768,813	(768,813)						
					99,933,168	99,933,168		
			(137,063)					
							1,554,011	
6,027	60,266	166,884						
			102,279					
								(233,915)
								(734,424)
								(30,424)
329,817	(13,298,168)	(3,220,714)			(63,293,563)	(63,293,563)		79,811
625,437	\$ 256,254,373	\$ 49,875,255	\$ 67,324,393	\$ 391,857	\$ 102,337,417	\$ 170,053,667	\$ 481,158	\$ (287,342)

The accompanying notes are an integral part of the financial statements.
 (With Deloitte & Touche audit report dated January 17, 2009)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 99,933,168	\$ 109,177,093
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,569,562	72,820,579
Unrealized (realized) gross profit from affiliates	(72)	265,106
Amortization of premium/discount of financial assets	(97,381)	(117,159)
Loss on impairment of financial assets	247,488	
Gain on disposal of available-for-sale financial assets, net	(443,404)	(271,094)
Gain on disposal of financial assets carried at cost, net	(8,755)	
Equity in earnings of equity method investees, net	(72,568)	(5,468,230)
Dividends received from equity method investees	1,804,351	677,147
Gain on disposal of property, plant and equipment and other assets, net	(298,769)	(300,387)
Loss on impairment of idle assets	210,477	
Deferred income tax	2,361,261	1,083,194
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(164,405)	239,413
Receivables from related parties	14,973,444	(9,832,139)
Notes and accounts receivable	6,470,152	(1,633,164)
Allowance for doubtful receivables	(252,226)	(1,959)
Allowance for sales returns and others	2,011,897	1,105,620
Other receivables from related parties	43,835	(76,042)
Other financial assets	(380,057)	321,762
Inventories	8,179,206	(1,834,928)
Prepaid expenses and other current assets	(330,664)	359,734
Increase (decrease) in:		
Accounts payable	(5,171,553)	3,342,139
Payables to related parties	(1,797,280)	(327,286)
Income tax payable	(1,766,153)	3,127,545
Bonuses payable to employees and directors	15,148,057	
Accrued expenses and other current liabilities	(3,142,500)	1,259,738
Accrued pension cost	52,330	127,563
Deferred credits	(129,494)	72,747
Net cash provided by operating activities	211,949,947	174,116,992
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(56,766,192)	(81,303,047)

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Available-for-sale financial assets	(23,697,000)	(9,547,253)
Held-to-maturity financial assets	(12,371,965)	
Investments accounted for using equity method	(494,765)	(7,358,685)
Financial assets carried at cost	(20,681)	(36,333)
Cash from merger of subsidiaries	270,650	
		(Continued)

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	\$ 45,584,934	\$ 18,844,520
Held-to-maturity financial assets	15,004,000	17,325,120
Financial assets carried at cost	10,606	
Property, plant and equipment and other assets	2,042,899	54,509
Proceeds from return of capital by investees	2,465,293	433,551
Increase in deferred charges	(3,199,813)	(2,685,610)
Decrease (increase) in refundable deposits	21,801	(1,435,304)
Increase in other assets		(232,575)
Net cash used in investing activities	(31,150,233)	(65,941,107)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bonds payable		(7,000,000)
Decrease in guarantee deposits	(761,525)	(1,569,284)
Proceeds from exercise of employee stock options	227,150	436,827
Cash dividends	(76,881,311)	(77,489,064)
Cash bonus paid to employees	(3,939,883)	(4,572,798)
Bonus to directors and supervisors	(176,890)	(285,800)
Repurchase of treasury stock	(33,480,997)	(45,413,373)
Net cash used in financing activities	(115,013,456)	(135,893,492)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,786,258	(27,717,607)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	72,422,102	100,139,709
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 138,208,360	\$ 72,422,102
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 355,056	\$ 661,200
Income tax paid	\$ 10,282,464	\$ 7,330,401

INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH
CASH AND NON-CASH ITEMS

Acquisition of property, plant, and equipment	\$ 58,951,343	\$ 76,023,264
Decrease (increase) in payables to contractors and equipment suppliers	(2,185,151)	5,279,783
Cash paid	\$ 56,766,192	\$ 81,303,047
Disposal of property, plant and equipment and other assets	\$ 2,051,168	\$ 54,509
Increase in other receivables from related parties	(8,269)	
Cash received	\$ 2,042,899	\$ 54,509

(Continued)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
Repurchase of treasury stock	\$ 30,427,413	\$ 48,466,957
Decrease (increase) in accrued expenses and other current liabilities	3,053,584	(3,053,584)
Cash paid	\$ 33,480,997	\$ 45,413,373
 NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	\$ 8,000,000	\$
Current portion of other long-term payable (under accrued expenses and other current liabilities)	\$ 1,026,421	\$ 3,673,182

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

(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987 as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

The Company is a dedicated foundry in the semiconductor industry which engaged mainly in the manufacturing, selling, packaging, testing and computer-aided designing of integrated circuits and other semiconductor devices and the manufacturing of masks.

As of December 31, 2008 and 2007, the Company had 20,425 and 20,555 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

Repurchase agreements collateralized by government bonds and asset-backed commercial papers acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

The fair value of structured time deposits is estimated using valuation techniques. Fair value of open-end mutual funds is determined using the net assets value at the end of the year. For debt securities, fair value is determined using the average of bid and asked prices at the end of the year.

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

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

Held-to-maturity Financial Assets

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

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

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of notes and accounts receivable. The Company determines the amount of the allowance for doubtful receivables by examining the aging analysis of outstanding notes and accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

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Revenue Recognition and Allowance for Sales Returns and Others

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

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

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for work in process and finished goods. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Year-end inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, Long-term Investments Accounted for Using the Equity Method, the cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). The accounting treatment for the investment premiums paid before January 1, 2006 is the same as that for goodwill which is no longer being amortized; while investment discounts continue to be amortized over the remaining periods. When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

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

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has a controlling interest is deferred until such gains or losses are realized through subsequent sales of the related products to third parties. Gains or losses on sales from equity method investees to the Company are deferred in

proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties. Gains or losses on sales between equity method investees over each of which the Company has control are deferred in proportion to the Company's weighted-average ownership percentage in the investee which records gains or losses. In transactions between equity method

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investees over either or both of which the Company has no control, gains or losses on sales are deferred in proportion to the multiplication of the Company's weighted-average ownership percentages in the investees. Such gains or losses are recorded until they are realized through transactions with third parties.

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

Financial Assets Carried at Cost

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

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

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

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

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

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

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

Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Prior to January 1, 2006, goodwill was amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised Statement of Financial Accounting Standards No. 25, Business Combinations Accounting Treatment under Purchase Method, goodwill

is no longer amortized and instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

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

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

Pension Costs

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

Income Tax

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

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

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

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

Stock-based Compensation

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

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus and additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus, treasury stock transactions and to retained earnings for any remaining amount.

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The Company's stock held by its subsidiaries is treated as treasury stock and reclassified from investments accounted for using equity method to treasury stock. The gains resulted from disposal of the treasury stock held by subsidiaries and cash dividends received by subsidiaries from the Company are recorded under capital surplus treasury stock transactions.

Foreign-currency Transactions

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

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

Recent Accounting Pronouncements

The Accounting Research and Development Foundation (ARDF) of the R.O.C. revised Statement of Financial Accounting Standards No. 10, Accounting for Inventories (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009.

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

Effective January 1, 2008, the Company adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors issued in March 2007 by the ARDF, which requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than as an appropriation of earnings. The adoption of this interpretation resulted in a decrease in net income and earnings per share (after income tax) of NT\$12,627,332 thousand and NT\$0.49, respectively, for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39,

Accounting for Share-based Payment, which requires companies to record share-based payment transactions in the financial statements at fair value. Such a change in accounting principle did not have any effect on the Company's financial statements as of and for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash and deposits in banks	\$ 129,538,047	\$ 61,832,143
Repurchase agreements collateralized by government bonds	8,670,313	10,067,843
Asset-backed commercial papers		522,116
	\$ 138,208,360	\$ 72,422,102

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

	December 31	
	2008	2007
Tradings financial assets		
Forward exchange contracts	\$ 28,411	\$ 6,516
Cross currency swap contracts	14,049	35,567
	\$ 42,460	\$ 42,083
Tradings financial liabilities		
Forward exchange contracts	\$ 34,243	\$ 183,916
Cross currency swap contracts	49,375	63,730
	\$ 83,618	\$ 247,646

The Company entered into derivative contracts during the years ended December 31, 2008 and 2007 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (in Thousands)
December 31, 2008		
Sell US\$/buy NT\$	January 2009 to February 2009	US\$135,000/NT\$4,430,925
Sell EUR/buy NT\$	January 2009	EUR1,500/NT\$63,150
December 31, 2007		
Sell US\$/buy NT\$	January 2008	US\$100,000/NT\$3,250,952
Sell EUR/buy NT\$	February 2008 to July 2008	EUR48,000/NT\$2,090,589

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2008			
January 2009	US\$307,000/NT\$10,061,232	0.54%-5.00%	0.00%-3.83%
December 31, 2007			

January 2008 to February 2008 US\$975,000/NT\$31,630,180 3.53%-5.60% 0.02%-3.01%

For the years ended December 31, 2008 and 2007, valuation loss on financial instruments arising from derivative financial instruments was NT\$1,230,966 thousand and NT\$924,316 thousand, respectively.

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6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds	\$ 2,032,658	\$ 4,052,242
Open-end mutual funds		14,966,675
Government bonds		4,146,082
Structured time deposits		499,410
	2,032,658	23,664,409
Current portion		(22,267,223)
	\$ 2,032,658	\$ 1,397,186

Structured time deposits categorized as available-for-sale financial assets consisted of the following:

	Principal	Carrying	Interest	Maturity
	Amount	Amount	Rate	Date
December 31, 2007				
Step-up callable deposits				
Domestic deposits	\$ 500,000	\$ 499,410	1.76%	March 2008

The interest rate of the step-up callable deposits was pre-determined by the Company and the banks.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds	\$ 16,136,752	\$ 10,900,247
Government bonds	1,506,572	7,824,425
Structured time deposits		1,500,000
	17,643,324	20,224,672
Current portion	(5,881,999)	(11,526,946)
	\$ 11,761,325	\$ 8,697,726

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

	Principal	Interest	Range of	Maturity
	Amount	Receivable	Interest	Date
			Rates	
December 31, 2007				

Step-up callable deposits

Domestic deposits	\$ 1,500,000	\$ 5,585	1.77%-1.83%	April 2008 to October 2008
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8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 688,972	\$ 690,931
Write-off	(252,226)	(1,959)
Balance, end of year	\$ 436,746	\$ 688,972

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

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 3,856,685	\$ 2,751,065
Provision	8,460,944	5,519,655
Write-off	(6,449,047)	(4,414,035)
Balance, end of year	\$ 5,868,582	\$ 3,856,685

9. INVENTORIES

	December 31	
	2008	2007
Finished goods	\$ 5,196,063	\$ 3,811,212
Work in process	7,694,458	15,867,005
Raw materials	737,494	1,428,592
Supplies and spare parts	529,360	612,128
Allowance for losses	14,157,375 (1,349,439)	21,718,937 (731,795)
	\$ 12,807,936	\$ 20,987,142

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2008	% of	2007	% of
	Carrying Amount	Owner- ship	Carrying Amount	Owner- ship
TSMC Global Ltd. (TSMC Global)	\$ 45,756,519	100	\$ 44,204,188	100
TSMC International Investment Ltd. (TSMC International)	29,637,057	100	27,688,565	100
Vanguard International Semiconductor Corporation (VIS)	9,787,275	37	11,024,568	36
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,808,192	39	9,092,741	39
TSMC (Shanghai) Company Limited (TSMC Shanghai)	6,267,128	100	8,622,715	100
TSMC Partners, Ltd. (TSMC Partners)	3,730,913	100	4,734,180	100
TSMC North America	2,435,666	100	2,255,647	100
XinTec Inc. (XinTec)	1,506,384	42	1,501,521	43
VentureTech Alliance Fund III, L.P. (VTAF III)	1,305,605	98	906,536	98
VentureTech Alliance Fund II, L.P. (VTAF II)	975,367	98	1,170,841	98
Global UniChip Corporation (GUC)	950,263	36	823,552	37
Emerging Alliance Fund, L.P. (Emerging Alliance)	433,481	99	467,873	99
TSMC Japan Limited (TSMC Japan)	137,617	100	104,929	100
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe)	124,594	100	88,702	100
TSMC Korea Limited (TSMC Korea)	15,117	100	16,436	100
Chi Cherng Investment Co., Ltd. (Chi Cherng)			173,429	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)			171,658	36
	\$ 109,871,178		\$ 113,048,081	

In August 2007, the Company acquired additional 169,600 thousand shares in VIS for NT\$4,927,865 thousand; after the acquisition, the Company's percentage of ownership in VIS increased from 27% to 36%.

Chi Cherng and Hsin Ruey, both 100% owned subsidiaries of the Company, were engaged in investing activities. To simplify the organization structure of investment, the Company merged Chi Cherng and Hsin Ruey in the third quarter of 2008.

For the years ended December 31, 2008 and 2007, net equity in earnings of equity method investees of NT\$72,568 thousand and NT\$5,468,230 thousand were recognized, respectively. The related equity in earnings of equity method investees were determined based on the audited financial statements of the investees for the same periods as the Company.

As of December 31, 2008 and 2007, fair values of publicly traded stocks in investments accounted for using equity method (VIS and GUC) was NT\$9,889,107 thousand and NT\$24,319,275 thousand, respectively.

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

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 2,677,388	\$ 943,277
Addition		2,081,282
Amortization	(624,135)	(347,171)
Balance, end of year	\$ 2,053,253	\$ 2,677,388

Movements of the aforementioned difference allocated to goodwill were as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 987,349	\$ 213,984
Addition	74,536	773,365
Balance, end of year	\$ 1,061,885	\$ 987,349

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2008	2007
Non-publicly traded stocks	\$ 357,509	\$ 364,913
Mutual funds	161,993	383,247
	\$ 519,502	\$ 748,160

For the years ended December 31, 2008 and 2007, the loss on impairment of financial assets carried at cost was recognized NT\$ 247,488 thousand and nil, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2008				
	Balance, Beginning of Year	Addition (Deductions)	Disposals	Reclassification	Balance, End of Year
Cost					
Buildings	\$ 101,907,892	\$ 12,115,531	\$ (8,524)	\$ (311)	\$ 114,014,588
Machinery and equipment	589,131,625	49,396,313	(3,385,502)	(134,175)	635,008,261
Office equipment	9,167,107	764,414	(182,709)	57	9,748,869
	700,206,624	\$ 62,276,258	\$ (3,576,735)	\$ (134,429)	758,771,718

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Accumulated depreciation					
Buildings	57,349,828	\$ 8,010,214	\$ (8,524)	\$ (4)	65,351,514
Machinery and equipment	422,278,071	63,145,978	(1,258,542)	(119,347)	484,046,160
Office equipment	7,097,120	935,140	(182,706)	26	7,849,580
	486,725,019	\$ 72,091,332	\$ (1,449,772)	\$ (119,325)	557,247,254
Advance payments and construction in progress	21,082,953	\$ (3,324,915)	\$	\$	17,758,038
Net	\$ 234,564,558				\$ 219,282,502

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Year Ended December 31, 2007

	Balance, Beginning of Year	Addition	Disposals	Reclassification	Balance, End of Year
Cost					
Buildings	\$ 96,961,851	\$ 5,025,296	\$ (31,835)	\$ (47,420)	\$ 101,907,892
Machinery and equipment	527,850,728	61,793,498	(487,386)	(25,215)	589,131,625
Office equipment	8,659,225	936,003	(328,555)	(99,566)	9,167,107
	633,471,804	\$ 67,754,797	\$ (847,776)	\$ (172,201)	700,206,624
Accumulated depreciation					
Buildings	49,595,917	\$ 7,783,832	\$ (30,957)	\$ 1,036	57,349,828
Machinery and equipment	361,401,800	61,492,223	(459,113)	(156,839)	422,278,071
Office equipment	6,469,533	958,315	(328,363)	(2,365)	7,097,120
	417,467,250	\$ 70,234,370	\$ (818,433)	\$ (158,168)	486,725,019
Advance payments and construction in progress	12,230,805	\$ 8,268,467	\$	\$ 583,681	21,082,953
Net	\$ 228,235,359				\$ 234,564,558

No interest was capitalized during the years ended December 31, 2008 and 2007.

13. DEFERRED CHARGES, NET

Year Ended December 31, 2008

	Balance, Beginning of Year	Addition	Amortization	Disposals	Reclassifi- cation	Balance, End of Year
Technology license fees	\$ 5,349,937	\$	\$ (1,563,686)	\$	\$	\$ 3,786,251
Software and system design costs	1,309,272	945,279	(680,474)	(14,279)	59	1,559,857
Patent and others	513,204	733,342	(191,193)			1,055,353
	\$ 7,172,413	\$ 1,678,621	\$ (2,435,353)	\$ (14,279)	\$ 59	\$ 6,401,461

Year Ended December 31, 2007

	Balance, Beginning of		Reclassifi-	Balance,

	Year	Addition	Amortization	Disposals	ation	End of Year
Technology license fees	\$ 4,038,551	\$ 3,263,950	\$ (1,656,113)	\$	\$ (296,451)	\$ 5,349,937
Software and system design costs	1,517,575	1,181,579	(820,183)	(51)	(569,648)	1,309,272
Patent and others	36,942	283,990	(104,179)		296,451	513,204
	\$ 5,593,068	\$ 4,729,519	\$ (2,580,475)	\$ (51)	\$ (569,648)	\$ 7,172,413

14. BONDS PAYABLE

	December 31	
	2008	2007
Domestic unsecured bonds: Issued in January 2002 and repayable in January 2009 and 2012 in two installments, 2.75% and 3.00% interest payable annually, respectively	\$ 12,500,000	\$ 12,500,000
Current portion	(8,000,000)	
	\$ 4,500,000	\$ 12,500,000

As of December 31, 2008, future principal repayments for the bonds payable were as follows:

Year of Repayment	Amount
2009	\$ 8,000,000
2012	4,500,000
	\$ 12,500,000

15. OTHER LONG-TERM PAYABLES

Most of the payables resulted from license agreements for certain semiconductor-related patents. As of December 31, 2008, future payments for other long-term payables were as follows:

Year of Payment	Amount
2009	\$ 1,026,421
2010	504,072
2011	427,180
	1,957,673
Current portion (classified under accrued expenses and other current liabilities)	(1,026,421)
	\$ 931,252

16. PENSION PLANS

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts and recognized pension costs of NT\$657,870 thousand and NT\$616,548 thousand for the years ended December 31, 2008 and 2007, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's service years and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan (originally the Central Trust of China, which was dissolved after merger with the Bank of Taiwan on July 1, 2007).

Pension information on the defined benefit plan is summarized as follows:

a. Components of net periodic pension cost for the year

	2008	2007
Service cost	\$ 151,603	\$ 184,232
Interest cost	170,025	155,297
Projected return on plan assets	(67,315)	(50,326)
Amortization	3,776	35,596

Net periodic pension cost	\$ 258,089	\$ 324,799
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b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2008 and 2007

	2008	2007
Benefit obligation		
Vested benefit obligation	\$ 114,930	\$ 120,146
Nonvested benefit obligation	4,146,366	3,450,818
Accumulated benefit obligation	4,261,296	3,570,964
Additional benefits based on future salaries	3,245,483	2,428,786
Projected benefit obligation	7,506,779	5,999,750
Fair value of plan assets	(2,441,687)	(2,199,189)
Funded status	5,065,092	3,800,561
Unrecognized net transition obligation	(99,591)	(107,891)
Prior service cost	169,216	
Unrecognized net loss	(1,424,708)	(34,991)
Accrued pension cost	\$ 3,710,009	\$ 3,657,679
Vested benefit	\$ 126,259	\$ 125,443

c. Actuarial assumptions at December 31, 2008 and 2007

Discount rate used in determining present values	2.00%	2.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.25%	3.00%

d. Contributions to the Funds for the year

	\$ 202,263	\$ 200,732
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e. Payments from the Funds for the year

	\$ 28,990	\$ 15,003
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17. INCOME TAX

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

	Years Ended December 31	
	2008	2007
Income tax expense based on income before income tax at statutory rate (25%)	\$ 27,689,695	\$ 30,187,852
Tax effect of the following:		
Tax-exempt income	(9,610,935)	(7,602,675)
Temporary and permanent differences	1,815,594	(789,073)

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Others	41,235	
Additional tax at 10% on unappropriated earnings		2,686,561
Income tax credits used	(10,967,795)	(13,740,683)
Income tax currently payable	\$ 8,967,794	\$ 10,741,982

(Continued)

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	Years Ended December 31	
	2008	2007
b. Income tax expense consisted of the following:		
Income tax currently payable	\$ 8,967,794	\$ 10,741,982
Other income tax adjustments	(503,405)	(250,863)
Net change in deferred income tax assets		
Investment tax credits	1,224,537	5,120,137
Temporary differences	(1,792,789)	(302,847)
Valuation allowance	2,929,513	(3,734,096)
Income tax expense	\$ 10,825,650	\$ 11,574,313
		(Concluded)

c. Net deferred income tax assets consisted of the following:

	December 31	
	2008	2007
Current deferred income tax assets		
Investment tax credits	\$ 2,791,000	\$ 5,268,000
Temporary differences	859,700	
	\$ 3,650,700	\$ 5,268,000
Noncurrent deferred income tax assets		
Investment tax credits	\$ 10,821,218	\$ 9,568,755
Temporary differences	2,076,400	1,143,311
Valuation allowance	(6,399,646)	(3,470,133)
	\$ 6,497,972	\$ 7,241,933

d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2008 and 2007 was NT\$521,634 thousand and NT\$3,012,848 thousand, respectively.

The estimated creditable ratio for distribution of earnings of 2008 and 2007 was 0.51% and 9.83%, respectively.

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

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

f. As of December 31, 2008, investment tax credits consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 219,587	\$	2009
		6,063,320		2010
		4,597,477	4,597,477	2011
		2,661,596	2,661,596	2012
		\$ 13,541,980	\$ 7,259,073	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,000,000	\$	2008
		1,127,051		2009
		3,163,784	627,742	2010
		2,687,841	2,687,841	2011
		2,977,848	2,977,848	2012
	\$ 10,956,524	\$ 6,293,431		
Statute for Upgrading Industries	Personnel training expenditures	\$ 21,795	\$	2009
		23,146	23,146	2010
		36,568	36,568	2011
		\$ 81,509	\$ 59,714	

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

	Tax-exemption Period
Construction of Fab 14 Module A	2006 to 2010
Construction of Fab 12 Module B and expansion of Fab 14 Module A	2007 to 2011
Construction of Fab 14 Module B and expansion of Fab 12 and others	2008 to 2012

h. The tax authorities have examined income tax returns of the Company through 2006.

18. LABOR COST, DEPRECIATION AND AMORTIZATION

Year Ended December 31, 2008	
Classified as	Classified as
as	Operating

	Cost of Sales	Expenses	Total
Labor cost			
Salary and bonus	\$ 17,088,512	\$ 11,989,661	\$ 29,078,173
Labor and health insurance	677,817	379,196	1,057,013
Pension	587,281	328,669	915,950
Meal	437,910	174,906	612,816
Welfare	174,641	100,989	275,630
Others	190,323	15,979	206,302
	\$ 19,156,484	\$ 12,989,400	\$ 32,145,884
Depreciation	\$ 68,373,886	\$ 3,701,241	\$ 72,075,127
Amortization	\$ 1,771,919	\$ 663,434	\$ 2,435,353

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	Year Ended December 31, 2007		
	Classified		
	as		
	Classified	Operating	
	as	Expenses	Total
	Cost of		
	Sales		
Labor cost			
Salary	\$ 9,201,605	\$ 4,392,243	\$ 13,593,848
Labor and health insurance	608,748	337,124	945,872
Pension	605,879	335,596	941,475
Meal	434,106	167,962	602,068
Welfare	183,463	110,894	294,357
Others	175,781	12,011	187,792
	\$ 11,209,582	\$ 5,355,830	\$ 16,565,412
Depreciation	\$ 66,375,152	\$ 3,816,399	\$ 70,191,551
Amortization	\$ 1,801,193	\$ 778,185	\$ 2,579,378

19. SHAREHOLDERS EQUITY

As of December 31, 2008, 1,092,053 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs is 5,460,265 thousand (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of the Company's paid-in capital. Also the capital surplus from long-term investments may not be used for any purpose.

Capital surplus consisted of the following:

	December 31	
	2008	2007
From merger	\$ 22,805,390	\$ 24,003,546
Additional paid-in capital	17,962,468	19,526,492
From convertible bonds	8,893,190	9,360,424
From long-term investments	214,152	351,215
Donations	55	55
From treasury stock transactions		490,950
	\$ 49,875,255	\$ 53,732,682

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

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company's paid-in capital;
- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;

c. Bonus to directors and bonus to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors. The Company may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;

d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting. The Company's Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

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

For the year ended December 31, 2008, the Company has recorded bonuses to employees and directors with a charge to earnings of approximately 15% of net income. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the Board of Directors, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If stock bonuses are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting.

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

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company's paid-in capital, up to 50% of the reserve may be transferred to capital.

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

The appropriations of earnings for 2007 and 2006 had been approved in the shareholders' meetings held on June 13, 2008 and May 7, 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2007	For Fiscal Year 2006	For Fiscal Year 2007	For Fiscal Year 2006
Legal capital reserve	\$ 10,917,709	\$ 12,700,973		
Special capital reserve	(237,693)	(11,192)		
Bonus to employees in cash	3,939,883	4,572,798		

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Bonus to employees in stock	3,939,883	4,572,798		
Cash dividends to shareholders	76,881,311	77,489,064	\$ 3.00	\$ 3.00
Stock dividends to shareholders	512,542	516,594	0.02	0.02
Bonus to directors and supervisors	176,890	285,800		
	\$ 96,130,525	\$ 100,126,835		

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The shareholders' meeting held on June 13, 2008 and May 7, 2007 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$768,813 thousand and NT\$774,891 thousand, respectively.

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on February 19, 2008 and February 6, 2007, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2007 and 2006, the basic earnings per share (after income tax) for the years ended December 31, 2007 and 2006 shown in the respective financial statements would have decreased from NT\$4.14 to NT\$3.84 and NT\$4.93 to NT\$4.56, respectively. The shares distributed as a bonus to employees represented 1.49 % and 1.77% of the Company's total outstanding common shares as of December 31, 2007 and 2006, respectively.

As of January 17, 2009, the Board of Directors has not resolved the appropriation for earnings of 2008.

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

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

20. STOCK-BASED COMPENSATION PLANS

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

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2008.

Information about outstanding options for the years ended December 31, 2008 and 2007 was as follows:

	Number of Options (in Thousands)	Weighted- average Exercise Price (NT\$)
Year ended December 31, 2008		
Balance, beginning of year	41,875	\$35.6
Options granted	767	35.2
Options exercised	(6,027)	37.7
Options canceled	(381)	46.5

Balance, end of year	36,234	35.3
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(Continued)

	Number of Options (in Thousands)	Weighted- average Exercise Price (NT\$)
Year ended December 31, 2007		
Balance, beginning of year	52,814	\$37.9
Options granted	1,094	37.9
Options exercised	(10,988)	39.8
Options canceled	(1,045)	45.9
 Balance, end of year	 41,875	 37.4

(Concluded)

The numbers of outstanding options and exercise prices have been adjusted to reflect the appropriations of earnings in accordance with the plans. The options granted were the result of the aforementioned adjustment.

As of December 31, 2008, information about outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (in Thousands)	Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options (in Thousands)	Weighted- average Exercise Price (NT\$)
\$24.2-\$33.9	25,633	4.15	\$31.0	25,633	\$31.0
38.2- 50.4	10,601	5.89	45.8	8,669	45.5
	36,234		35.3	34,302	34.6

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2008 and 2007. Had the Company used the fair value based method to evaluate the options, using the Black-Scholes model, the assumptions and pro forma results of the Company for the years ended December 31, 2008 and 2007 would have been as follows:

	Years Ended December 31	
	2008	2007
Assumptions:		
Expected dividend yield	1.00%-3.44%	1.00%-3.44%
Expected volatility	43.77%-46.15%	43.77%-46.15%
Risk free interest rate	3.07%-3.85%	3.07%-3.85%
Expected life	5 years	5 years

Net income:		
Net income as reported	\$ 99,933,168	\$ 109,177,093
Pro forma net income	100,037,622	109,054,923
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$3.86	\$4.06
Pro forma basic EPS	3.86	4.06
Diluted EPS as reported	3.83	4.06
Pro forma diluted EPS	3.83	4.06

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21. TREASURY STOCK

	(Shares in Thousands)				
	Beginning Shares	Addition	Stock Dividends	Retirement	Ending Shares
Year ended December 31, 2008					
Parent company stock held by subsidiaries	34,096		171	34,267	
Repurchase under share buyback plan	800,000	495,549		1,295,549	
	834,096	495,549	171	1,329,816	
Year ended December 31, 2007					
Parent company stock held by subsidiaries	33,926		170		34,096
Repurchase under share buyback plan		800,000			800,000
	33,926	800,000	170		834,096

As of December 31, 2007, the book value of the treasury stock was NT\$49,385,032 thousand; the market value was NT\$51,713,947 thousand. The Company's common shares held by subsidiaries were treated as treasury stock and the holders are entitled to the rights of shareholders, with the exception of voting rights.

The Company held a meeting of the Board of Directors on November 13, 2007 and approved a share buyback plan to repurchase the Company's common shares up to 800,000 thousand shares listed on the TSE during the period from November 14, 2007 to January 13, 2008 for the buyback price in the range from NT\$43.2 to NT\$94.2. The Company had repurchased 800,000 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in February 2008.

The Company held a meeting of the Board of Directors on May 13, 2008 and approved a share buyback plan to repurchase the Company's common shares up to 500,000 thousand shares listed on the TSE during the period from May 14, 2008 to July 13, 2008 for the buyback price in the range from NT\$48.25 to NT\$100.50. The Company had repurchased 216,674 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in August 2008.

The Company held a meeting of the Board of Directors on August 12, 2008 and approved a share buyback plan to repurchase the Company's common shares up to 283,000 thousand shares listed on the TSE during the period from August 13, 2008 to October 12, 2008 for the buyback price in the range from NT\$42.85 to NT\$86.20. The Company had repurchased 278,875 thousand common shares. All the treasury stock repurchased under this share buyback plan was retired in November 2008.

As discussed in Note 10, the Company merged Chi Cherng and Hsin Ruey in the third quarter of 2008. The Company's common shares held by Chi Cherng and Hsin Ruey in the number of 34,267 thousand shares were

retired in August 2008.

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22. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (in Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Year ended December 31, 2008					
Basic EPS					
Earnings available to common shareholders	\$ 110,758,818	\$ 99,933,168	25,909,643	\$ 4.27	\$ 3.86
Effect of dilutive potential common shares					
Bonus to employees			181,943		
Stock options			15,090		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 110,758,818	\$ 99,933,168	26,106,676	\$ 4.24	\$ 3.83
Year ended December 31, 2007					
Basic EPS					
Earnings available to common shareholders	\$ 120,751,406	\$ 109,177,093	26,870,684	\$ 4.49	\$ 4.06
Effect of dilutive potential common shares					
Stock options			21,652		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 120,751,406	\$ 109,177,093	26,892,336	\$ 4.49	\$ 4.06

As discussed in Note 3, effective January 1, 2008, the Company adopted Interpretation 2007-052 that requires companies to record bonuses paid to employees as an expense rather than as an appropriation of earnings. If the Company may settle the obligation by cash, by issuing share, or in combination of both cash and shares, potential shares from bonus to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price (after consideration of the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential

shares needs to be included in the calculation of diluted EPS until the shares of employee bonus are resolved in the shareholders meeting in the following year.

The average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses. This adjustment caused both of the basic and diluted after income tax EPS for the year ended December 31, 2007 to decrease from NT\$4.14 to NT\$4.06.

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23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	\$ 42,460	\$ 42,460	\$ 42,083	\$ 42,083
Available-for-sale financial assets	2,032,658	2,032,658	23,664,409	23,664,409
Held-to-maturity financial assets	17,643,324	17,674,733	20,224,672	20,192,188
Liabilities				
Financial liabilities at fair value through profit or loss	83,618	83,618	247,646	247,646
Bonds payable (including current portion)	12,500,000	12,612,423	12,500,000	12,669,987
Other long-term payables (including current portion)	1,957,673	1,957,673	5,174,644	5,174,644

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, payables, payables to contractors and equipment suppliers and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) For those financial assets/liabilities at fair value through profit or loss with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 3) Fair values of available-for-sale and held-to-maturity financial assets were based on their quoted market prices, except for structured time deposits of which the fair values were estimated using valuation techniques.
- 4) Fair value of bonds payable was based on their quoted market price.
- 5) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.

c. The changes in fair value of derivatives contracts which were outstanding as of December 31, 2008 and 2007 estimated using valuation techniques were recognized as valuation losses of NT\$41,158 thousand and NT\$205,563 thousand, respectively.

d. As of December 31, 2008 and 2007, financial assets exposed to fair value interest rate risk were NT\$19,718,442 thousand and NT\$43,931,164 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$12,583,618 thousand and NT\$12,747,646 thousand; and financial assets exposed to cash flow interest rate risk were both nil.

- e. Movements of the unrealized gain/loss on financial instruments for the years ended December 31, 2008 and 2007 were as follows:

	Year Ended December 31, 2008		
	From Available- for-sale Financial Assets	From Available-for- sale Financial Assets Held by Investees	Total
Balance, beginning of year	\$ 266,573	\$ 414,424	\$ 680,997
Recognized directly in shareholders' equity	209,489	(734,424)	(524,935)
Removed from shareholders' equity and recognized in earnings	(443,404)		(443,404)
Balance, end of year	\$ 32,658	\$ (320,000)	\$ (287,342)

	Year Ended December 31, 2007		
	From Available- for-sale Financial Assets	From Available-for- sale Financial Assets Held by Investees	Total
Balance, beginning of year	\$ 242,248	\$ 319,367	\$ 561,615
Recognized directly in shareholders' equity	295,419	95,057	390,476
Removed from shareholders' equity and recognized in earnings	(271,094)		(271,094)
Balance, end of year	\$ 266,573	\$ 414,424	\$ 680,997

f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets held by the Company are mainly fixed-interest-rate debt securities; therefore, the fluctuations in market interest rates will result in changes in fair values of these debt securities. Subject to recent turmoil in the global financial market, the Company had evaluated its financial instruments and the Company believed the exposure to market risk as of December 31, 2008 was not significant.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. Subject to recent turmoil in the global financial market,

the Company evaluated whether the financial instruments for any possible counter-party or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company's exposure to credit risk as of December 31, 2008 was not significant.

- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments and bonds payable. Therefore, the liquidity risk is low.
- 4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

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24. RELATED PARTY TRANSACTIONS

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

a. Subsidiaries

TSMC North America
TSMC Shanghai
TSMC Europe
TSMC Japan
TSMC Korea

b. Investees

GUC (with a controlling financial interest)
VIS (accounted for using equity method)
SSMC (accounted for using equity method)

c. Indirect subsidiaries

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

d. Indirect investee

VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using equity method.

e. Others

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

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

	2008		2007	
	Amount	%	Amount	%
For the year				
Sales				
TSMC North America	\$ 192,986,719	58	\$ 192,846,641	61
Others	1,814,440	1	1,072,708	
	\$ 194,801,159	59	\$ 193,919,349	61
Purchases				
WaferTech	\$ 8,207,876	22	\$ 8,774,750	18
TSMC Shanghai	4,717,676	12	5,828,541	12
SSMC	4,441,795	12	5,468,410	11
VIS	3,209,028	8	4,188,107	9
Others			1,028	

\$ 20,576,375 54 \$ 24,260,836 50

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	2008		2007	
	Amount	%	Amount	%
Manufacturing expenses – outsourcing				
VisEra	\$ 72,174		\$ 39,078	
Marketing expenses – commission				
TSMC Europe	\$ 367,846	16	\$ 316,748	24
TSMC Japan	251,367	11	220,858	16
TSMC Korea	16,408	1	26,818	2
	\$ 635,621	28	\$ 564,424	42
General and administrative expenses – rental				
GUC	\$ 1,050		\$ 6,139	
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 352,900	2	\$ 354,423	2
TSMC Canada (primarily consulting fee)	172,291	1	129,665	1
GUC	18,940		56,887	1
Others	994		44,168	
	\$ 545,125	3	\$ 585,143	4
Sales of property, plant and equipment				
TSMC Shanghai	\$ 1,849,317	91	\$ 3,295	6
Other	10,843		546	1
	\$ 1,860,160	91	\$ 3,841	7
Non-operating income and gains				
TSMC Shanghai	\$ 297,418	5	\$ 338,038	3
VIS (primarily technical service income, see Note 26f)	296,250	4	346,260	3
SSMC (primarily technical service income, see Note 26e)	244,865	4	290,586	3
VisEra	100,821	1	321,799	3
Others	178		1,731	
	\$ 939,532	14	\$ 1,298,414	12

As of December 31

Receivables				
TSMC North America	\$ 11,512,777	98	\$ 26,626,880	100
Others	215,427	2	74,768	
	\$ 11,728,204	100	\$ 26,701,648	100

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	2008		2007	
	Amount	%	Amount	%
Other receivables				
TSMC North America	\$ 256,624	52	\$ 98,885	19
TSMC Shanghai	112,933	23	151,037	29
SSMC	56,949	12	84,778	16
VIS	42,969	9	118,749	22
VisEra			40,101	8
Others	20,267	4	31,758	6
	\$ 489,742	100	\$ 525,308	100
Payables				
TSMC North America	\$ 327,250	28	\$ 13,392	
VIS	317,491	26	838,584	28
WaferTech	171,089	14	784,280	26
SSMC	162,807	14	655,029	22
TSMC Shanghai	117,417	10	596,581	20
Others	106,296	8	111,764	4
	\$ 1,202,350	100	\$ 2,999,630	100
Deferred credits				
TSMC Shanghai	\$ 183,896	40	\$ 510,564	52
VisEra			62,175	6
	\$ 183,896	40	\$ 572,739	58

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

The Company deferred the net gains (classified under the deferred credits) derived from sales of property, plant and equipment to TSMC Shanghai and VisEra, and then recognized such gains (classified under non-operating income and gains) over the depreciable lives of the disposed assets.

The Company leased part of its office space from GUC and also leased certain buildings and facilities to VisEra. The rental expense and income were classified under operating expenses and non-operating income, respectively. The lease terms and prices were determined in accordance with mutual agreements. The lease agreement between the Company and VisEra expired in April 2008.

Compensation of directors and management personnel:

	Years Ended December 31	
	2008	2007
Salaries, incentives and special compensation	\$ 272,325	\$ 275,081
Bonus	705,376	1,096,233
	\$ 977,701	\$ 1,371,314

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The information about the compensation of directors and management personnel is available in the annual report for the shareholders meeting. Total compensation expense for the year ended December 31, 2008 includes estimated bonuses to employees and directors of the Company that relate to 2008 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders meeting in 2009. The total compensation for the year ended December 31, 2007 included the bonuses appropriated from earnings of 2007 which was approved by the shareholders meeting held in 2008.

25. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from December 2009 to December 2028 and can be renewed upon expiration.

As of December 31, 2008, future lease payments were as follows:

Year	Amount
2009	\$ 340,443
2010	291,245
2011	289,664
2012	289,664
2013	268,019
2014 and thereafter	2,047,777
	\$ 3,526,812

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2008, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, the Company and Philips (Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006) amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between the Company and Philips (now NXP B.V.) will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, the Company will pay Philips (now NXP B.V.) royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the Company's annual net sales. The Company and Philips (now NXP B.V.) agreed to cross license the patents owned by each party. The Company also obtained through Philips (now NXP B.V.) a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity if the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of December 31, 2008, the Company had a total of US\$43,421 thousand of guarantee deposits.

- d. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP) committed to buy specific percentages of the production capacity of SSMC. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase up to 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. The Company provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) effective March 30, 1999. The Company receives compensation for such services computed at a specific percentage of net selling price of all products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each unless pre-terminated by either party under certain conditions.
- f. The Company provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into on April 1, 2004. The Company receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for the Company certain products at prices as agreed by the parties.
- g. TSMC, TSMC North America and WaferTech filed a series of lawsuits in late 2003 and 2004 against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referring to as SMIC). The lawsuits alleged that SMIC infringed multiple TSMC, TSMC North America and WaferTech patents and misappropriated TSMC, TSMC North America and WaferTech's trade secrets. These suits were settled out of court on January 30, 2005. As part of the settlement, Semiconductor Manufacturing International Corporation shall pay US\$175 million over six years to resolve TSMC, TSMC North America and WaferTech's claims. As of December 31, 2008, SMIC had paid US\$120 million in accordance with the terms of this settlement agreement. In August 2006, TSMC, TSMC North America and WaferTech filed a lawsuit against SMIC in Alameda County Superior Court in California for breach of aforementioned settlement agreement, breach of promissory notes and trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC, TSMC North America and WaferTech in the same court, alleging TSMC, TSMC North America and WaferTech of breach of the settlement agreement and implied covenant of good faith and fair dealing, in response to TSMC, TSMC North America and WaferTech's August complaint. In November 2006, SMIC filed a complaint with Beijing People's High Court against TSMC, TSMC North America and WaferTech alleging defamation and breach of good faith. The California State Superior Court of Alameda County issued an Order on TSMC, TSMC North America and WaferTech's pre-trial motion for a preliminary injunction against SMIC on September 7, 2007. In the Order, the Court found TSMC has demonstrated a significant likelihood that it will ultimately prevail on the merits of its claim for breach of certain paragraphs of the (2005) Settlement Agreement with SMIC. The Court also found TSMC has demonstrated a significant probability of establishing that SMIC retains and is using TSMC Information in SMIC's 0.13um and smaller technologies, and there is significant threat of serious irreparable harm to TSMC if SMIC were to disclose or transfer that information before final resolution of the case. Therefore, the Court ordered that, effective immediately, SMIC must provide advance notice and an opportunity for TSMC, TSMC North America and WaferTech to object before disclosing items enumerated in the Court Order to SMIC's third party partners.

The Court, however, did not grant a preliminary injunction as requested by TSMC, TSMC North America and WaferTech. The result of the above-mentioned litigation cannot be determined at this time.

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- h. In April 2004, UniRAM Technology, Inc. (UniRAM) filed an action against MoSys Inc., TSMC and TSMC North America in the U.S. District Court for the Northern District of California, alleging patent infringement and trade secret misappropriation and seeking injunctive relief and damages. TSMC appealed after the United States District Court for the Northern District of California rendered judgment in favor of UniRAM in May 2008. In the third quarter of 2008, TSMC and TSMC North America had reached agreement with UniRAM to settle the dispute. In accordance with the settlement, the judgment has been vacated and the claims asserted by UniRAM are fully and finally settled. As of December 31, 2008, the Company had accounted for the result of the settlement in accordance with the aforementioned settlement agreement.

27. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 1 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 2 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 6 attached;
- j. Information about derivatives of investees over which the Company has a controlling interest:

TSMC Shanghai entered into forward exchange contracts during the year ended December 31, 2008 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2008:

	Maturity Date	Contract Amount (in Thousands)
Sell RMB/buy US\$	January 2009 to April 2009	RMB55,010/US\$8,000
Sell US\$/buy JPY	January 2009 to February 2009	US\$131/JPY11,800

For the year ended December 31, 2008, net losses arising from forward exchange contracts of TSMC Shanghai were NT\$8,208 thousand.

XinTec entered into forward exchange contracts during the year ended December 31, 2008 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2008:

	Maturity Date	Contract Amount (in Thousands)
Sell US\$/buy NT\$	February 2009	US\$3,900/NT\$127,747

For the year ended December 31, 2008, net losses arising from forward exchange contracts of XinTec were NT\$9,957 thousand.

k. Information on investment in Mainland China

- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 7 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: Please see Note 24.

28. SEGMENT FINANCIAL INFORMATION

a. Industry financial information

The Company operates in one industry. Therefore, the disclosure of industry financial information is not applicable to the Company.

b. Geographic information

The Company has no significant foreign operations. Therefore, the disclosure of geographic information is not applicable to the Company.

c. Export sales

Area	Years Ended December 31	
	2008	2007
Americas	\$ 199,512,258	\$ 208,590,323
Asia	49,386,819	43,149,191
Europe and others	37,622,148	27,944,270
	\$ 286,521,225	\$ 279,683,784

The export sales information is based on the amounts billed to customers within the areas.

d. Major customers representing at least 10% of gross sales

Years Ended December 31	
2008	2007

	Amount	%	Amount	%
Customer A	\$ 192,986,719	58	\$ 192,846,641	61

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TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES HELD
DECEMBER 31, 2008
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2008	
			Shares/Units (in Thousands)	Carrying Per Value (US\$ in Thousands)
Corporate bond				
Taiwan Mobile Co., Ltd.		Available-for-sale financial assets		\$ 2,032,658
Taiwan Power Company		Held-to-maturity financial assets		4,209,629
Formosa Petrochemical Corporation		"		3,554,908
San Ya Plastics Corporation		"		3,487,804
Formosa Plastic Corporation		"		2,385,285
TPC Corporation, Taiwan		"		1,000,124
China Steel Corporation		"		1,000,000
Shanghai Commercial & Saving Bank		"		299,092
Formosa Chemicals & Fiber Corporation		"		199,910
Government bond				
2003 Asian Development Bank Govt. bond		Held-to-maturity financial assets		873,237
European Investment Bank Bonds		"		383,387
2004 Government Bond Series B		"		249,948
Stocks				
SMC Global	Subsidiary	Investments accounted for using equity method	1	45,756,519
SMC International	Subsidiary	"	987,968	29,637,057
SMC IS	Investee accounted for using equity method	"	628,223	9,787,275
SMC	Investee accounted for using equity method	"	314	6,808,192
SMC Partners	Subsidiary	"	300	3,730,913
SMC North America	Subsidiary	"	11,000	2,435,666
SMC inTec	Investee with a controlling financial interest	"	92,620	1,506,384
SMC UC	Investee with a controlling financial interest	"	44,904	950,263
SMC Japan	Subsidiary	"	6	137,617

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SMC Europe	Subsidiary	"		124,594
SMC Korea	Subsidiary	"	80	15,117
United Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584
Chin-Etsu Handotai Taiwan Co., Ltd.		"	10,500	105,000
Y.K. Technology Fund IV		"	4,000	40,000
Montung Venture Capital Co., Ltd.		"	2,633	18,925
and				
Horizon Ventures Fund		Financial assets carried at cost		103,992
Primson Asia Capital		"		58,001
Capital				
SMC Shanghai	Subsidiary	Investments accounted for using equity method		6,267,128
TAF III	Subsidiary	"		1,305,605
TAF II	Subsidiary	"		975,367
Emerging Alliance	Subsidiary	"		433,481

(Continued)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018	
			Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)
Preferred stock eXen, Inc.		Financial assets carried at cost	328	US\$ 656
Corporate bond General Elec Cap Corp. Mtn		Held-to-maturity financial assets		US\$ 20,791
General Elec Cap Corp. Mtn		"		US\$ 20,294
Stocks SMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 690,095
WaveStar Semiconductor Development and, Inc. (II)	Subsidiary	"	32,289	US\$ 25,586
ISDF (ISDF II)		"		
SMC Technology	Subsidiary	"	1	US\$ 8,408
WaveStar Semiconductor Development and, Inc. (ISDF)	Subsidiary	"	7,680	US\$ 6,529
Corporate bond E Capital Corp.		Held-to-maturity financial assets		US\$ 20,447
Stocks WaferTech	Subsidiary	Investments accounted for using equity method	293,637	US\$ 204,558
Common stock Eisera Holding Company	Investee accounted for using equity method	Investments accounted for using equity method	43,000	US\$ 69,298
SMC Canada	Subsidiary	"	2,300	US\$ 2,570
Common stock Axim, Inc.		Financial assets carried at cost	203	US\$ 54
ArchWave Technology Corp.		"	4,247	US\$ 1,648
Global Investment Holding Inc.		"	10,800	US\$ 3,065
Preferred stock Audience, Inc.		Financial assets carried at cost	1,654	US\$ 250
Maxim Microdevices, Inc.		"	1,000	US\$ 1,000
emFire Corporation		"		US\$ 31

iradia, Inc.	"	3,040	US\$	1,000
osaic Systems, Inc.	"	2,481	US\$	12
ext IO, Inc.	"	800	US\$	500
ptichron, Inc.	"	714	US\$	1,000
ptimal Corporation	"		US\$	229
xim, Inc.	"	4,439	US\$	1,083
ST Holding, LLC	"		US\$	131
eknovus, Inc.	"	6,977	US\$	1,327

Capital
 VentureTech Alliance Holdings, L.L.C. Subsidiary
 (VTA Holdings)

Investments accounted for
 using equity method

Common stock				
entelic	Financial assets carried at cost	1,200	US\$	2,040
quantia	"	2,108	US\$	2,573
eadtrend	"	1,265	US\$	660
Preferred stock				
/ Technologies, Inc.	Financial assets carried at cost	2,890	US\$	2,168
udience, Inc.	"	5,335	US\$	1,390
xiom Microdevices, Inc.	"	5,046	US\$	2,481

(Continued)

December 31, 2019

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Per	
			Shares/Units (in thousands)	Value (US\$ in thousands)
Beceem Communications		Financial assets carried at cost	650	US\$ 1,600
GemFire Corporation		"	600	US\$ 68
Impinj, Inc.		"	475	US\$ 1,000
Miradia, Inc.		"	3,416	US\$ 3,106
Next IO, Inc.		"	2,775	US\$ 756
Optichron, Inc.		"	1,050	US\$ 1,844
Pixim, Inc.		"	6,348	US\$ 1,141
Power Analog Microelectronics		"	5,232	US\$ 2,790
QST Holding, LLC		"		US\$ 415
RichWave Technology Corp.		"	1,043	US\$ 730
Teknovus, Inc.		"	1,599	US\$ 454
Tzero Technologies, Inc.		"	1,167	US\$ 569
Xceive		"	870	US\$ 1,177
Capital				
VTA Holdings	Subsidiary	Investments accounted for using equity method		
Common stock				
Mutual-pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	4,590	US\$ 1,705
Acionn Technology Corporation	Investee accounted for using equity method	"	4,500	US\$ 1,052
Auramicro, Inc.		Financial assets carried at cost	3,816	US\$ 1,145
InvenSence, Inc.		"	816	US\$ 1,000
Preferred stock				
Advasure Sensors, Inc.		Financial assets carried at cost	1,929	US\$ 1,834
BridgeLux, Inc.		"	3,333	US\$ 5,000
Exclara, Inc. (Formerly SynDitec, Inc.)		"	21,708	US\$ 4,568
GTBF, Inc.		"	1,154	US\$ 1,500
LiquidLeds Lighting Corp.		"	1,600	US\$ 800
M2000, Inc.		"	3,000	US\$ 3,000
Neoconix, Inc.		"	2,458	US\$ 4,000
Powervation, Ltd.		"	191	US\$ 2,930
Quellan, Inc.		"	3,106	US\$ 3,500
Silicon Technical Services, LLC		"	1,055	US\$ 1,208
Tilera, Inc.		"	1,698	US\$ 2,360
Validity Sensors, Inc.		"	6,424	US\$ 2,545

Capital				
Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method		US\$ 100
VTA Holdings	Subsidiary	"		
Common stock				
Staccato		Financial assets carried at cost	10	US\$ 25
Common stock				
Capella Microsystems (Taiwan), Inc.		Financial assets carried at cost	530	US\$ 154
Preferred stock				
Memsic, Inc.		Available-for-sale financial assets	1,364	US\$2,250
Integrated Memory Logic, Inc.		Financial assets carried at cost	2,872	US\$1,221
IP Unity, Inc.		"	1,008	US\$ 290
NanoAmp Solutions, Inc.		"	541	US\$ 541
Sonics, Inc.		"	230	US\$1,843
				(Continued)

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December 31, 2017

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Perce	
			Shares/Units (in thousands)	Value (US\$ in thousands)
Common stock				
Rich Tek Technology Corp.		Financial assets at fair value through profit or loss	101	US\$ 403
Rich Tek Technology Corp.		Available-for-sale financial assets	288	US\$ 1,148
Ralink Technology (Taiwan), Inc.		"	1,512	US\$ 3,232
eLCOS Microdisplay Technology, Ltd.		Financial assets carried at cost	270	US\$ 27
EoNEX Technologies, Inc.		"	55	US\$ 305
Sonics, Inc.		"	278	US\$ 1,597
Epic Communication, Inc.		"	191	US\$ 23
EON Technology, Corp.		"	2,494	US\$ 691
Goyatek Technology, Corp.		"	2,088	US\$ 545
Trendchip Technologies Corp.		"	1,020	US\$ 574
Capella Microsystems (Taiwan), Inc.		"	534	US\$ 210
Auden Technology MFG. Co., Ltd.		"	1,049	US\$ 223
Preferred stock				
Memsic, Inc.		Available-for-sale financial assets	1,145	US\$ 1,888
Alchip Technologies Limited		Financial assets carried at cost	6,979	US\$ 3,664
eLCOS Microdisplay Technology, Ltd.		"	3,500	US\$ 878
FangTek, Inc.		"	7,064	US\$ 3,428
Kilopass Technology, Inc.		"	3,887	US\$ 1,746
NanoAmp Solutions, Inc.		"	375	US\$ 375
Sonics, Inc.		"	264	US\$ 1,517
Common stock				
GUC-NA	Subsidiary	Investments accounted for using equity method	800	\$34,019
GUC-Japan	Subsidiary	"	1	11,854
GUC-Europe	Subsidiary	"		2,563
Capital				
Compositech Ltd.		Financial assets carried at cost	587	
Agency bonds				
Fed Hm Ln Pc Pool 1b1225		Available-for-sale financial assets		US\$ 75

Fed Hm Ln Pc Pool 1b2566	"	US\$ 118	M
Fed Hm Ln Pc Pool 1b2632	"	US\$ 145	M
Fed Hm Ln Pc Pool 1b2642	"	US\$ 195	M
Fed Hm Ln Pc Pool 1b2776	"	US\$ 282	M
Fed Hm Ln Pc Pool 1b2792	"	US\$ 193	M
Fed Hm Ln Pc Pool 1b2810	"	US\$ 246	M
Fed Hm Ln Pc Pool 1b7453	"	US\$ 2,302	M
Fed Hm Ln Pc Pool 1g0038	"	US\$ 243	M
Fed Hm Ln Pc Pool 1g0053	"	US\$ 289	M
Fed Hm Ln Pc Pool 1g0104	"	US\$ 119	M
Fed Hm Ln Pc Pool 1g1282	"	US\$ 3,285	M
Fed Hm Ln Pc Pool 1g1411	"	US\$ 2,979	M
Fed Hm Ln Pc Pool 1h2520	"	US\$ 2,152	M
Fed Hm Ln Pc Pool 1h2524	"	US\$ 1,614	M
Fed Hm Ln Pc Pool 780870	"	US\$ 481	M
Fed Hm Ln Pc Pool 781959	"	US\$ 2,841	M
Fed Hm Ln Pc Pool 782785	"	US\$ 198	M
Fed Hm Ln Pc Pool 782837	"	US\$ 390	M
Fed Hm Ln Pc Pool 783022	"	US\$ 443	M

(Continued)

December 31, 2010

Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying	Percent
				Value of	Owned
				Shares/Units	(%)
				(in US\$ thousands)	(%)
	Fed Hm Ln Pc Pool 783026		Available-for-sale financial assets	US\$ 239	N/A
	Fed Hm Ln Pc Pool B19205		"	US\$5,501	N/A
	Fed Hm Ln Pc Pool E01492		"	US\$1,544	N/A
	Fed Hm Ln Pc Pool E89857		"	US\$1,152	N/A
	Fed Hm Ln Pc Pool G11295		"	US\$ 911	N/A
	Fed Hm Ln Pc Pool M80855		"	US\$2,526	N/A
	Federal Home Ln Mtg Corp.		"	US\$ 348	N/A
	Federal Home Ln Mtg Corp.		"	US\$ 187	N/A
	Federal Home Ln Mtg Corp.		"	US\$3,108	N/A
	Federal Home Ln Mtg Corp.		"	US\$1,603	N/A
	Federal Home Ln Mtg Corp.		"	US\$1,727	N/A
	Federal Home Ln Mtg Corp.		"	US\$1,185	N/A
	Federal Home Ln Mtg Corp.		"	US\$2,782	N/A
	Federal Home Ln Mtg Corp.		"	US\$1,383	N/A
	Federal Home Ln Mtg Corp.		"	US\$2,358	N/A
	Federal Home Ln Mtg Corp.		"	US\$2,233	N/A
	Federal Home Ln Mtg Corp.		"	US\$2,880	N/A
	Federal National Mort Assoc		"	US\$2,049	N/A
	Federal National Mortgage Asso		"	US\$2,879	N/A
	Federal Natl Mtg Assn		"	US\$1,328	N/A
	Federal Natl Mtg Assn		"	US\$1,315	N/A
	Federal Natl Mtg Assn		"	US\$1,372	N/A
	Federal Natl Mtg Assn		"	US\$2,868	N/A
	Federal Natl Mtg Assn Gtd		"	US\$1,298	N/A
	Fnma Pool 255883		"	US\$2,724	N/A
	Fnma Pool 257245		"	US\$3,513	N/A
	Fnma Pool 555549		"	US\$1,184	N/A
	Fnma Pool 555715		"	US\$ 142	N/A
	Fnma Pool 632399		"	US\$ 337	N/A
	Fnma Pool 662401		"	US\$ 451	N/A
	Fnma Pool 667766		"	US\$1,068	N/A
	Fnma Pool 680932		"	US\$ 952	N/A
	Fnma Pool 681393		"	US\$2,045	N/A
	Fnma Pool 685116		"	US\$ 489	N/A
	Fnma Pool 691283		"	US\$3,039	N/A
	Fnma Pool 694287		"	US\$ 17	N/A
	Fnma Pool 703711		"	US\$ 402	N/A

Fnma Pool 725095	"	US\$ 865	N/A
Fnma Pool 730033	"	US\$ 138	N/A
Fnma Pool 740934	"	US\$ 889	N/A
Fnma Pool 742232	"	US\$ 13	N/A
Fnma Pool 750798	"	US\$ 18	N/A
Fnma Pool 773246	"	US\$ 183	N/A
Fnma Pool 793932	"	US\$ 367	N/A
Fnma Pool 794040	"	US\$ 579	N/A
Fnma Pool 795548	"	US\$ 133	N/A
Fnma Pool 799664	"	US\$ 77	N/A
Fnma Pool 799868	"	US\$ 26	N/A
Fnma Pool 804764	"	US\$ 303	N/A
Fnma Pool 804852	"	US\$ 264	N/A
Fnma Pool 804962	"	US\$ 323	N/A
Fnma Pool 805163	"	US\$ 347	N/A
Fnma Pool 806642	"	US\$ 457	N/A

(Continued)

December 31, 2018

Marketable Securities	Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in thousands)	Carrying Value (in US\$ thousands)	Percent Ownership
	Enma Pool 806721		Available-for-sale financial assets		US\$ 548	N/A
	Enma Pool 814418		"		US\$ 297	N/A
	Enma Pool 815626		"		US\$ 1,833	N/A
	Enma Pool 819423		"		US\$ 453	N/A
	Enma Pool 821129		"		US\$ 430	N/A
	Enma Pool 888499		"		US\$ 1,588	N/A
	Enma Pool 888502		"		US\$ 204	N/A
	Enma Pool 888507		"		US\$ 783	N/A
	Enma Pool 888515		"		US\$ 847	N/A
	Enma Pool 888519		"		US\$ 99	N/A
	Enma Pool 888527		"		US\$ 57	N/A
	Enma Pool 888738		"		US\$ 3,776	N/A
	Enma Pool 888793		"		US\$ 4,242	N/A
	Enma Pool 900296		"		US\$ 2,415	N/A
	Enma Ii Pool 081150		"		US\$ 331	N/A
	Enma Ii Pool 081153		"		US\$ 1,030	N/A
	Enma Pool 646061		"		US\$ 2,468	N/A
	Government Natl Mtg Assn Gtd		"		US\$ 1,861	N/A
	Federal Home Ln Bank		"		US\$ 5,305	N/A
	Federal Farm Cr Bks		"		US\$ 3,610	N/A
	Federal Farm Credit Bank		"		US\$ 3,433	N/A
	Federal Home Ln Bks		"		US\$ 3,854	N/A
	Federal Home Ln Bks		"		US\$ 5,320	N/A
	Federal Home Ln Bks		"		US\$ 4,148	N/A
	Federal Home Ln Mtg		"		US\$ 5,340	N/A
	Federal Home Ln Mtg Corp.		"		US\$ 3,428	N/A
	Federal Home Ln Mtg Corp.		"		US\$ 3,560	N/A
	Federal Home Ln Mtg Corp.		"		US\$ 3,743	N/A
	Federal Home Loan Bank		"		US\$ 4,710	N/A
	Federal Natl Mtg Assn		"		US\$ 4,134	N/A
	Federal Natl Mtg Assn		"		US\$ 3,713	N/A
	Federal Natl Mtg Assn		"		US\$ 4,169	N/A
	Federal Natl Mtg Assn		"		US\$ 3,809	N/A
	Federal Natl Mtg Assn Mtn		"		US\$ 3,108	N/A
	Corporate issued asset-backed securities					
	Banc Amer Coml Mtg Inc.		Available-for-sale financial assets		US\$ 4,584	N/A

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Banc Amer Fdg 2006 I Tr	"	US\$2,066	N/A
Bear Stearns Adjustable Rate	"	US\$ 60	N/A
Bear Stearns Arm Tr	"	US\$1,909	N/A
Bear Stearns Arm Tr	"	US\$1,160	N/A
Bear Stearns Arm Tr	"	US\$ 129	N/A
Bear Stearns Coml Mtg Secs Inc.	"	US\$ 96	N/A
Bear Stearns Coml Mtg Secs Inc.	"	US\$2,690	N/A
Class Tr	"	US\$ 709	N/A
Chase Mtg Fin Tr	"	US\$ 576	N/A
Chase Mtg Fin Tr	"	US\$1,171	N/A
Chase Mtg Fin Tr	"	US\$1,704	N/A
Chase Mtge Finance Corp.	"	US\$ 865	N/A
Cit Equip Coll Tr	"	US\$3,884	N/A
Credit Suisse First Boston Mtg	"	US\$ 439	N/A
Credit Suisse First Boston Mtg	"	US\$1,513	N/A
Credit Suisse First Boston Mtg	"	US\$4,349	N/A

(Continued)

December 31, 2013

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value		Percent Ownership
			Shares/Units (in thousands)	(US\$ in thousands)	
First Franklin Mtg Ln Tr		Available-for-sale financial assets		US\$ 413	N/A
First Horizon		"		US\$ 29	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,051	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 4,715	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,019	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 991	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,237	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 485	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 588	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 630	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 559	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 3,495	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 660	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,515	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,074	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,331	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 288	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 158	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 147	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,041	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 3,163	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,925	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 114	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,521	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,641	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,405	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,632	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,391	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 845	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,088	N/A
Corporate bonds					
American Gen Fin Corp. Mtn		Available-for-sale financial assets		US\$ 1,156	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 1,505	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 2,066	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 3,353	N/A
First Un Natl Bk Coml Mtg Tr		"		US\$ 347	N/A

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Deutsche Bank Ag London	"	US\$ 3,013	N/A
Jefferies Boston Corp.	"	US\$ 2,589	N/A
General Elec Cap Corp. Mtn	"	US\$ 2,988	N/A
General Elec Cap Corp. Mtn	"	US\$ 673	N/A
Goldman Sachs Group	"	US\$ 2,029	N/A
J.P. Morgan Chase	"	US\$ 1,994	N/A
Wellington Fdg Corp.	"	US\$ 2,669	N/A
Morgan Stanley	"	US\$ 4,552	N/A
US Bancorp Mtn Bk Ent	"	US\$ 1,369	N/A
Archovia Corp. New	"	US\$ 3,135	N/A
Wells Fargo + Co. New Med Trm	"	US\$ 4,493	N/A

Money market funds			
BlackRock Cash Mgmt Global Offshore	Available-for-sale financial assets	US\$30,435	N/A
Government bonds			
United States Treas Nts	Available-for-sale financial assets	US\$10,374	N/A

(Concluded)

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Security Type and	Financial Statement Account	Counter-party Relationship	Nature of Shares/Units (in Thousands)	Beginning Balance		Acquisition		Disposition	
				Amount (US\$ in Thousands)	Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands)
	Available-for-sale financial assets	National Investment Trust Co., Ltd.		12,239	\$2,045,935	6,257	\$1,058,000	18,496	\$3,119,140
	"	Fuh Hwa Investment Trust Co., Ltd.		132,997	1,801,674	129,864	1,775,000	262,861	3,598,480
and	"	National Investment Trust Co., Ltd.		103,016	1,474,856	153,113	2,214,000	256,129	3,703,023
and	"	ING Securities Investment Trust Co., Ltd.		85,581	1,310,030	140,522	2,170,000	226,103	3,497,877
ond Fund	"	Prudential Financial Securities Investment Trust Enterprise		83,306	1,236,728			83,306	1,245,214
ond Fund	"	Uni-President Assets Management Corp.		77,128	1,208,799	120,183	1,900,000	197,311	3,125,566
ond Fund	"	JF Asset Management (Taiwan) Ltd.		59,049	915,252	45,425	712,000	104,474	1,635,181
ond Fund	"	ING Securities Investment Trust Co., Ltd.		54,621	878,682	60,839	988,000	115,460	1,877,230
ment Trust	"	Taishin Investment Trust Co., Ltd.		68,945	718,556			68,945	724,340
and	"			54,469	705,033			54,469	708,863

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		AIG Global Asset Management Corporation (Taiwan) Ltd.						
	"	Cathay Securities Investment Trust Co., Ltd.	60,126	703,824			60,126	709,289
Fund	"	Allianz Global Investors Taiwan Ltd.	54,319	639,542			54,319	644,310
Fund	"	JF Asset Management (Taiwan) Ltd.	35,324	504,206			35,324	508,184
Management	"	HSBC Asset Management (Taiwan) Ltd.	27,416	413,504			27,416	416,788
	"	INVESCO Taiwan Limited	27,176	410,054			27,176	412,892
Fund	"	IBT Asset Magement Co., Ltd.			74,771	1,000,000	74,771	1,002,474
	"	PCA Securities Investment Trust Co., Ltd.			187,050	2,400,000	187,050	2,411,016
	"	Capital Investment Trust Corporation			228,072	3,480,000	228,072	3,491,264
nd Series B	Available-for-sale financial assets	Grand Cathay Securities Corp. and several financial institutions		1,197,121				1,203,434
nd Series G	"	"		200,065				201,301
nd Series B	Held-to-maturity financial assets	Sinopac Securities Corp. and several financial institutions				249,603		
nd Series H	"	"		400,709		299,852		
td	Available-for-sale financial assets	Grand Cathay Securities				2,000,000		

Corp. and
several
financial
institutions

(Continued)

Item and	Financial Statement Account	Counter-party Relationship	Beginning Balance		Acquisition		Disposal (1)	
			Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (in Thousands)	Amount (US\$ in Thousands)
	Held-to-maturity financial assets	Grand Cathay Securities Corp. and several financial institutions		\$		\$ 198,914		\$
	"	"		3,581,667		959,827		
	"	"		2,630,064		3,192,915		
	"	"		391,134		1,984,471		
	"	"		1,804,346		2,486,383		
	Investments accounted for using equity method	Subsidiary		906,536		466,783		
	Held-to-maturity financial assets	BNP PARIBAS, London				US\$ 20,864		
	"	"				US\$ 20,316		
	Held-to-maturity financial assets	BNP PARIBAS, London				US\$ 20,478		
	Available-for-sale financial assets	PCA Securities Investment Trust Co., Ltd.			19,654	252,000	19,654	252,536
und	"	Prudential Financial Securities Investment			18,087	271,000	18,087	271,331

und	Trust								
	Enterprise								
”	Uni-President	17,430		275,000		17,430		275,390	
	Assets								
	Management								
”	Corp.	16,096		190,000		16,096		190,077	
	Cathay								
	Securities								
	Investment								
”	Trust Co., Ltd.	15,575		225,000		15,575		225,206	
	National								
	Investment								
”	Trust Co., Ltd.	13,383		170,000		13,383		170,333	
	IBT Asset								
”	Magement Co.,	13,262		205,000		13,262		205,393	
	Ltd.								
	ING Securities								
	Investment								
”	Trust Co., Ltd	11,631		155,000		11,631		155,255	
	IBT Asset								
	Magement Co.,								
”	Ltd.	12,602		172,000		12,602		172,353	
	Fuh Hwa								
	Investment								
”	Trust Co., Ltd.	12,484		147,000		12,484		147,117	
	Mega								
	International								
	Investment								
”	Trust Co., Ltd.	10,042		154,000		10,042		154,298	
	Polaris								
	Securities								
	Investment								
”	Trust Co., Ltd.	796		135,000		796		135,133	
	National								
	Investment								
	Trust Co., Ltd.								
Available-for-sale		3,716	US\$	3,741					
financial assets									
”		9,000	US\$	8,977				9,000	US\$ 9,002
”						9,000	US\$	9,162	US\$
”		9,000	US\$	8,939				9,000	US\$ 9,003
”									
”		3,725	US\$	3,721					
”		5,000	US\$	4,965				5,000	US\$ 5,003
”		5,000	US\$	4,980				5,000	US\$ 4,999
”									
		7,100	US\$	7,204				7,100	US\$ 7,420

(Continued)

s Type and	Financial Statement Account	Counter-party Relationship	Beginning Balance		Acquisition		Disposal (M	
			Amount		Shares/Units		Amount	
			(in Thousands)	(US\$ in Thousands)	(in Thousands)	(US\$ in Thousands)	(in Thousands)	(US\$ in Thousands)
	Available-for-sale financial assets		US\$	12,100	US\$ 12,464	8,100	US\$ 8,399	US\$
	"		18,665	US\$ 19,023		18,665	US\$ 19,403	US\$
	"		21,900	US\$ 22,342		21,900	US\$ 22,473	US\$
	"			5,000	US\$ 5,186			US\$
nk	"			7,200	US\$ 7,241	7,200	US\$ 7,475	US\$
nk	"			3,375	US\$ 3,370			US\$
Corp.	"			6,700	US\$ 6,690	6,700	US\$ 6,841	US\$
Corp.	"			3,340	US\$ 3,336			US\$
Corp.	"			3,500	US\$ 3,494			US\$
Corp.	"			7,000	US\$ 7,572	3,500	US\$ 3,712	US\$
Corp.	"			3,391	US\$ 3,389			US\$
Corp.	"			3,083	US\$ 3,170			US\$
anks	"		21,000	US\$ 21,500		21,000	US\$ 21,646	US\$
	"			7,200	US\$ 7,248	7,200	US\$ 7,424	US\$
	"			3,700	US\$ 3,700			US\$
	"			10,000	US\$ 10,291	6,000	US\$ 6,138	US\$
	"		5,000	US\$ 5,169		5,000	US\$ 5,196	US\$
	"			3,500	US\$ 3,645			US\$
	"			3,750	US\$ 4,151			US\$
	"			3,450	US\$ 3,463	3,450	US\$ 3,450	US\$
c Mtn	"		3,000	US\$ 2,982		3,000	US\$ 3,006	US\$
Mtn	"		3,200	US\$ 3,171		3,200	US\$ 3,201	US\$
	"				4,173	US\$ 4,352		US\$
backed								
et Exec	Available-for-sale financial assets		9,000	US\$ 9,118		9,000	US\$ 8,710	US\$
o Receiva	"		3,500	US\$ 3,498		3,500	US\$ 3,414	US\$
Tr	"		4,335	US\$ 4,337		4,335	US\$ 3,596	US\$
	"		5,000	US\$ 4,998		5,000	US\$ 4,926	US\$
Owner Tr	"		5,000	US\$ 4,956		3,658	US\$ 3,466	US\$
orp. Mtn	Available-for-sale financial assets		3,150	US\$ 3,107		3,150	US\$ 3,110	US\$
	"		3,250	US\$ 3,653		3,250	US\$ 3,437	US\$
	"		20,000	US\$ 20,402		20,000	US\$ 20,409	US\$
don	"				2,995	US\$ 3,041		US\$

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	"		10,600	US\$ 10,577	10,600	US\$ 10,461	US	
	"		7,300	US\$ 7,277	7,300	US\$ 7,492	US	
	"		10,600	US\$ 10,576	10,600	US\$ 10,676	US	
	"		7,200	US\$ 7,182	7,200	US\$ 7,596	US	
. Mtn	"	4,000	US\$ 3,978		4,000	US\$ 4,042	US	
. Mtn	"	3,000	US\$ 3,047		3,000	US\$ 3,070	US	
	"	3,000	US\$ 3,263		3,000	US\$ 3,060	US	
Fdg Ii Mtn	"	4,750	US\$ 5,111		4,750	US\$ 4,707	US	
Machs	"	3,500	US\$ 3,555		3,500	US\$ 3,582	US	
ry	"	3,050	US\$ 3,053		3,050	US\$ 3,041	US	
eraufbau	"			8,700	US\$ 8,679	8,700	US\$ 8,973	US
g Ii Mtn	"	3,800	US\$ 3,737		3,800	US\$ 3,668	US	
al Mtn	"	3,400	US\$ 3,366		3,400	US\$ 3,409	US	
l Fdg I	"	3,500	US\$ 3,631		3,500	US\$ 3,159	US	

(Continued)

Financial Statement Account	Counter-party Relationship	Nature of Relationship	Beginning Balance		Acquisition		Disposal	
			Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands) (Note 1)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
available-for-sale financial assets			US\$ 3,500	US\$ 3,484		\$	US\$ 3,500	US\$ 3,484
"			3,400	US\$ 3,372			3,400	US\$ 3,372
available-for-sale financial assets			592,180	US\$592,180	1,035,077	US\$1,035,077	1,596,822	US\$1,596,822
available-for-sale financial assets					17,825	US\$ 17,813	17,825	US\$ 17,813
"					31,300	US\$ 31,414	31,300	US\$ 31,414
"					4,200	US\$ 4,259	4,200	US\$ 4,259
"					19,400	US\$ 19,353	19,400	US\$ 19,353
"					20,100	US\$ 20,057	20,100	US\$ 20,057
"					19,500	US\$ 19,474	19,500	US\$ 19,474
"					60,100	US\$ 60,563	60,100	US\$ 60,563
"					20,800	US\$ 20,751	20,800	US\$ 20,751
"					45,300	US\$ 45,549	45,300	US\$ 45,549
"					17,000	US\$ 16,886	17,000	US\$ 16,886
"					67,600	US\$ 67,804	67,600	US\$ 67,804
"					7,800	US\$ 7,787	7,800	US\$ 7,787
"					14,600	US\$ 14,605	14,600	US\$ 14,605
"					26,500	US\$ 26,636	26,500	US\$ 26,636
"					6,400	US\$ 6,372	6,400	US\$ 6,372
"			25,900	US\$ 25,924			25,900	US\$ 25,924
"					14,700	US\$ 14,887	14,700	US\$ 14,887
"					11,500	US\$ 11,615	11,500	US\$ 11,615
"					53,300	US\$ 54,114	53,300	US\$ 54,114
"					4,000	US\$ 4,057	4,000	US\$ 4,057
"			5,000	US\$ 5,070			5,000	US\$ 5,070
"					3,750	US\$ 3,958	3,750	US\$ 3,958
"			5,500	US\$ 5,613			5,500	US\$ 5,613
"			6,400	US\$ 6,500			6,400	US\$ 6,500
"			41,900	US\$ 42,509			41,900	US\$ 42,509
"					4,000	US\$ 4,200	4,000	US\$ 4,200
"					10,266	US\$ 11,167		
"			5,000	US\$ 5,160	2,000	US\$ 2,062	7,000	US\$ 7,222
"					10,000	US\$ 10,525	10,000	US\$ 10,525

"	3,250	US\$	3,359			3,250	US\$	3,
"				10,000	US\$	10,866	10,000	US\$ 11,
"	7,500	US\$	7,758			7,500	US\$	7,
"				15,000	US\$	16,162	15,000	US\$ 16,
"	9,500	US\$	9,735			9,500	US\$	9,
"				11,250	US\$	12,259	11,250	US\$ 12,
"				19,700	US\$	19,900	19,700	US\$ 20,
"				13,300	US\$	13,383	13,300	US\$ 13,

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and capital return from subsidiaries.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/ losses on financial assets, translation adjustments or equity in earnings of equity method investees.

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited
ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100
MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in Thousands of New Taiwan Dollars)

Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction Owner	Related Counter-party Relationships	Transfer Date	Price Amount	Reference
January 16, 2008 January 19,	\$4,045,220	By the construction progress	Tasa Construction Corporation, Fu Tsu Construction, and China Steel Structure Co., Ltd.		N/A	N/A	N/A	N/A	Public bidding

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TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Investees
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR
20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2008
(Amounts in Thousands of New Taiwan Dollars)

Related Party	Nature of Relationships	Purchases/ Sales	Transaction Details			Abnormal Transaction		Notes/ Pay/ Rec/ Endi Balanc
			Amount	% to	Total Payment Terms	Unit Price (Note)	Payment Terms (Note)	
TSMC North America	Subsidiary	Sales	\$192,986,719	58	Net 30 days after invoice date			\$11,512
GUC	Investee with a controlling financial interest	Sales	1,611,058	1	Net 30 days after monthly closing			215
TSMC Shanghai	Subsidiary	Sales	101,245		Net 30 days after monthly closing			
WaferTech	Indirect subsidiary	Purchases	8,207,876	22	Net 30 days after monthly closing			(171)
TSMC Shanghai	Subsidiary	Purchases	4,717,676	12	Net 30 days after monthly closing			(117)
SSMC	Investee accounted for using equity method	Purchases	4,441,795	12	Net 30 days after monthly closing			(162)
VIS	Investee accounted for using equity method	Purchases	3,209,028	8	Net 30 days after monthly closing			(317)
TSMC North America	Same parent company	Purchases	1,747,488	41	Net 30 days after invoice date/net 45 days after monthly closing			(148)
OmniVision	Parent company of director (represented for XinTec)	Sales	2,522,749	81	Net 30 days after monthly closing			309
VisEra	Same president	Sales	23,650	1	Net 45 days after monthly closing			

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to

third parties. For
other related
party
transactions,
prices and terms
were determined
in accordance
with mutual
agreements.

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TABLE 5

**Taiwan Semiconductor Manufacturing Company Limited and Investees
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%
OF THE PAID-IN CAPITAL
DECEMBER 31, 2008
(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue Amounts	Action Taken	Amounts Received in Subsequent Period	Allowance for Debts
Company	TSMC North America	Subsidiary	\$11,769,401	36	\$4,130,119		\$4,177,615	\$
	GUC	Investee with a controlling financial interest	215,190	33	1,869		103,680	
	TSMC Shanghai	Subsidiary	112,933	(Note 2)				
Tec	OmniVision	Parent company of director (represented for XinTec)	309,133	54				

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

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

TABLE 6

**Taiwan Semiconductor Manufacturing Company Limited and Investee
 NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE
 COMPANY EXERCISES SIGNIFICANT INFLUENCE
 DECEMBER 31, 2008**

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

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2008		Carrying Value (Foreign Currencies in Thousands)	Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity at Year End (Lo- (No- (Fo- Curr- Thou-
			December 31, 2008 (Foreign Currencies in Thousands)	December 31, 2007 (Foreign Currencies in Thousands)	Share Percentage (in Ownership)	Share Percentage (in Ownership)			
C Global	Tortola, British Virgin Islands	Investment activities	\$42,327,245	\$42,327,245	1	100	\$45,756,519	\$ 963,052	\$ 963,052
C ational	Tortola, British Virgin Islands	Providing investment in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,445,780	31,445,780	987,968	100	29,637,057	2,082,332	2,082,332
	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,047,681	628,223	37	9,787,275	1,041,953	(1,041,953)
C	Singapore	Fabrication and supply of integrated circuits	5,120,028	8,840,895	314	39	6,808,192	2,460,149	7,268,341
			12,180,367	12,180,367		100	6,267,128	(2,904,565)	(2,904,565)

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C ghai	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers							
C ers	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	3,730,913	(973,153)	(9
C North ica	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	2,435,666	144,918	14
ec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	92,620	42	1,506,384	198,178	1
F III	Cayman Islands	Investing in new start-up technology companies	1,440,241	973,459		98	1,305,605	(92,095)	(9
F II	Cayman Islands	Investing in new start-up technology companies	1,036,422	1,095,622		98	975,367	(132,150)	(11
	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	44,904	36	950,263	747,049	20
ging nce	Cayman Islands	Investing in new start-up technology companies	986,797	1,019,042		99	433,481	(6,643)	
C Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	137,617	4,943	
C be	Amsterdam, the Netherlands	Marketing activities	15,749	15,749		100	124,594	38,454	1
C Korea	Seoul, Korea	Customer service and	13,656	13,656	80	100	15,117	3,232	

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		technical support activities											
C Development II	Delaware, U.S.A.	Investment activities	US\$	0,001	US\$	0,001	1	100	US\$	690,095	US\$	16,011	No
	Cayman Islands	Investing in new start-up technology companies	US\$	32,289	US\$	43,048	42,320	97	US\$	25,586	US\$	240	No
C Technology	Delaware, U.S.A.	Engineering support activities	US\$	0,001	US\$	0,001	1	100	US\$	8,408	US\$	1,816	No
	Cayman Islands	Investing in new start-up technology companies	US\$	7,680	US\$	8,721	7,598	97	US\$	6,529	US\$	(2,156)	No
rTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$	380,000	US\$	430,000	293,637	100	US\$	204,558	US\$	27,089	No
a ng pany	Cayman Islands	Investment in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$	43,000	US\$	43,000	43,000	49	US\$	69,298	US\$	4,633	No
C da	Ontario, Canada	Engineering support activities	US\$	2,300	US\$	2,300	2,300	100	US\$	2,570	US\$	286	No
a	Hsin-Chu, Taiwan	Manufacturing and selling of electronic parts and providing turn-key services in back-end color	US\$	91,041	US\$	91,041	253,120	89	US\$	122,700	US\$	4,429	No

filter
fabrication,
package, test,
and optical
solutions

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2008			Net Income (Losses) of the Investee in U.S. Dollars	Equity in the Earnings (Losses) of the Investee (Not in U.S. Dollars)
			December 31, 2008 (Foreign Currencies in Thousands)	December 31, 2007 (Foreign Currencies in Thousands)	Shareholders' Equity (in Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)		
Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US\$ 1,705	US\$ 1,705	4,590	51	US\$ 1,398	US\$ (544)	Note 2
Aiconn Technology Corp.	Taipei, Taiwan	Wholesaling telecommunication equipments, and manufacturing wired and wireless communication equipments			4,500	44	US\$ 1,052	US\$ (1,339)	Note 2
Growth Fund	Cayman Islands	Investing in new start-up technology companies	US\$ 700			100	US\$ 100	US\$ (600)	Note 2
VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies				68			Note 2
VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies				24			Note 2
GUC-NA	U.S.A.	Consulting services in main products	US\$ 800	US\$ 100	800	100	\$34,019	\$ 2,774	Note 2
GUC-Japan	Japan	Consulting services in main products	JPY 30,000	JPY 10,000	1	100	11,854	459	Note 2
GUC-Europe	The Netherlands	Consulting services in main products	EUR 50			100	2,563	254	Note 2
VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies				8			Note 2

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

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

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TABLE 7

Taiwan Semiconductor Manufacturing Company Limited
INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2008

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

Investee Company	Main Businesses and Products	Total Amount of		Accumulated Outflow of Investment from Taiwan as of	Outflow of Investment Flows	Accumulated Outflow of Investment from Taiwan as of	Accumulated Equity Inward Investment of the value of Earnings as of
		Paid-in Capital RMB in Thousand)	Method of Investment	January 1, 2008 (US\$ in Thousand)	in (US\$ in Thousand)	December 31, 2008 (US\$ in Thousand)	December 31, 2008 (US\$ in Thousand)
TSMC Shanghai	Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$12,180,367 (RMB3,070,623)	(Note 1)	\$12,180,367 (US\$371,000)	\$ \$	\$12,180,367 (US\$371,000)	2.98% (Note 2)

Accumulated Investment in Mainland China as of December 31, 2008 (US\$ in Thousand)

\$12,180,367
(US\$371,000)

Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)

\$12,180,367
(US\$371,000)

Upper Limit on Investment (US\$ in Thousand)

\$12,180,367
(US\$371,000)

Note 1: Direct investments US\$371,000 thousand in TSMC Shanghai.

Note 2: Amount was recognized based on the audited financial statements.

**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries
Consolidated Financial Statements for the
Years Ended December 31, 2008 and 2007 and
Independent Auditors Report**

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2008, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, Consolidated Financial Statements. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By

/s/ MORRIS CHANG

MORRIS CHANG

Chairman

January 17, 2009

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2008 and 2007, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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As discussed in Note 3 to the consolidated financial statements, effective January 1, 2008, Taiwan Semiconductor Manufacturing Company Limited and subsidiaries adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors issued by the Accounting Research and Development Foundation of the Republic of China and relevant requirements promulgated by the Financial Supervisory Commission of the Executive Yuan.

January 17, 2009

Notice to Readers

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

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

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)

	2008		2007	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 194,613,752	35	\$ 94,986,488	16
Financial assets at fair value through profit or loss (Notes 2, 5 and 24)	55,730		1,632,387	
Available-for-sale financial assets (Notes 2, 6 and 24)	10,898,715	2	66,688,368	12
Held-to-maturity financial assets (Notes 2, 7 and 24)	5,881,999	1	11,526,946	2
Receivables from related parties (Note 25)	407		10,885	
Notes and accounts receivable	25,023,321	4	47,204,126	8
Allowance for doubtful receivables (Notes 2 and 8)	(455,751)		(701,807)	
Allowance for sales returns and others (Notes 2 and 8)	(6,071,026)	(1)	(4,089,035)	(1)
Other receivables from related parties (Note 25)	99,918		243,620	
Other financial assets (Note 26)	1,911,699		1,515,527	
Inventories, net (Notes 2 and 9)	14,876,645	3	23,862,260	4
Deferred income tax assets, net (Notes 2 and 18)	3,969,330	1	5,572,334	1
Prepaid expenses and other current assets	1,813,692		1,370,230	
Total current assets	252,618,431	45	249,822,329	42
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 24)				
Investments accounted for using equity method	18,907,158	3	22,517,289	4
Available-for-sale financial assets	2,032,658		1,400,691	
Held-to-maturity financial assets	15,426,252	3	8,697,726	2
Financial assets carried at cost	3,615,447	1	3,845,619	1
Total long-term investments	39,981,515	7	36,461,325	7
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 26)				
Cost				
Land and land improvements	953,857		942,197	
Buildings	132,249,996	24	118,640,027	21
Machinery and equipment	697,498,743	125	646,419,427	113

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Office equipment	12,430,800	2	11,829,640	2
Leased assets	722,339		652,296	
	843,855,735	151	778,483,587	136
Accumulated depreciation	(618,816,267)	(110)	(540,099,567)	(94)
Advance payments and construction in progress	18,605,882	3	21,868,167	4
Net property, plant and equipment	243,645,350	44	260,252,187	46
INTANGIBLE ASSETS				
Goodwill (Note 2)	6,044,392	1	5,987,582	1
Deferred charges, net (Notes 2 and 13)	7,125,828	1	7,923,601	2
Total intangible assets	13,170,220	2	13,911,183	3
OTHER ASSETS				
Deferred income tax assets, net (Notes 2 and 18)	6,636,873	1	7,313,283	1
Refundable deposits	2,767,199	1	2,777,769	1
Others (Note 2)	97,001		327,150	
Total other assets	9,501,073	2	10,418,202	2
TOTAL	\$ 558,916,589	100	\$ 570,865,226	100

**LIABILITIES AND SHAREHOLDERS
EQUITY**

CURRENT LIABILITIES

Financial liabilities at fair value through profit or loss (Notes 2, 5 and 24)	\$ 85,187		\$ 249,313	
Accounts payable	5,553,151	1	11,574,882	2
Payables to related parties (Note 25)	489,857		1,503,376	1
Income tax payable (Notes 2 and 18)	9,331,825	2	11,126,128	2
Bonuses payable to employees, directors and supervisors (Notes 3 and 20)	15,369,730	3		
Payables to contractors and equipment suppliers	7,998,773	1	6,256,732	1
Accrued expenses and other current liabilities (Notes 16 and 28)	9,755,835	2	17,714,763	3
Current portion of bonds payable and bank loans (Notes 14, 15 and 26)	8,222,398	1	280,813	
Total current liabilities	56,806,756	10	48,706,007	9

LONG-TERM LIABILITIES

Bonds payable (Note 14)	4,500,000	1	12,500,000	2
Long-term bank loans (Notes 15 and 26)	1,420,476		1,722,196	
Other long-term payables (Notes 16 and 28)	9,548,226	2	9,409,978	2
Obligations under capital leases (Note 2)	722,339		652,296	

Total long-term liabilities	16,191,041	3	24,284,470	4
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OTHER LIABILITIES

Accrued pension cost (Notes 2 and 17)	3,701,584	1	3,665,522	1
Guarantee deposits (Note 28)	1,484,495		2,243,009	
Deferred credits (Notes 2 and 25)	316,537		1,236,873	
Others	43,709		43,774	

Total other liabilities	5,546,325	1	7,189,178	1
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Total liabilities	78,544,122	14	80,179,655	14
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EQUITY ATTRIBUTABLE TO
SHAREHOLDERS OF THE PARENT

Capital stock \$10 par value (Notes 20 and 22)

Authorized: 28,050,000 thousand shares

Issued: 25,625,437 thousand shares in 2008

26,427,104 thousand shares in 2007	256,254,373	46	264,271,037	46
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Capital surplus (Notes 2 and 20)	49,875,255	9	53,732,682	9
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Retained earnings (Note 20)

Appropriated as legal capital reserve	67,324,393	12	56,406,684	10
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Appropriated as special capital reserve	391,857		629,550	
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Unappropriated earnings	102,337,417	18	161,828,337	28
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	170,053,667	30	218,864,571	38
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Others (Notes 2, 22 and 24)

Cumulative translation adjustments	481,158		(1,072,853)	
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Unrealized gain/loss on financial instruments	(287,342)		680,997	
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Treasury stock: 834,096 thousand shares			(49,385,032)	(8)
---	--	--	--------------	-----

	193,816		(49,776,888)	(8)
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Equity attributable to shareholders of the parent	476,377,111	85	487,091,402	85
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MINORITY INTERESTS (Note 2)	3,995,356	1	3,594,169	1
Total shareholders equity	480,372,467	86	490,685,571	86
TOTAL	\$ 558,916,589	100	\$ 570,865,226	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 17, 2009)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 25)	\$ 341,983,355		\$ 328,336,172	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	8,825,695		5,705,576	
NET SALES	333,157,660	100	322,630,596	100
COST OF SALES (Notes 19 and 25)	191,408,099	58	180,280,385	56
GROSS PROFIT	141,749,561	42	142,350,211	44
OPERATING EXPENSES (Notes 19 and 25)				
Research and development	21,480,937	7	17,946,322	5
General and administrative	11,096,599	3	8,963,836	3
Marketing	4,736,657	1	3,718,146	1
Total operating expenses	37,314,193	11	30,628,304	9
INCOME FROM OPERATIONS	104,435,368	31	111,721,907	35
NON-OPERATING INCOME AND GAINS				
Interest income (Note 2)	5,373,823	2	5,651,700	2
Foreign exchange gain, net (Note 2)	1,227,653	1	80,922	
Technical service income (Notes 25 and 28)	1,181,966		590,391	
Settlement income (Note 28)	951,180		985,114	1
Gain on settlement and disposal of financial assets, net (Notes 2 and 24)	721,050		874,670	
Equity in earnings of equity method investees, net (Notes 2 and 10)	701,533		2,507,869	1
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 25)	100,874		91,210	
Subsidy income (Note 2)	8,029		364,321	
Valuation gain on financial instruments, net (Notes 2, 5 and 24)			63,017	
Others (Note 25)	555,341		724,589	

Total non-operating income and gains	10,821,449	3	11,933,803	4
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(Continued)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Loss on impairment of financial assets (Notes 2, 6, 11 and 24)	\$ 1,560,055	1	\$ 54,208	
Valuation loss on financial instruments, net (Notes 2, 5 and 24)	1,081,019			
Interest expense	614,988		842,242	
Loss on impairment of idle assets (Note 2)	210,477			
Provision for litigation loss (Note 28h)	99,126		1,008,635	1
Others (Note 2)	218,906		108,599	
Total non-operating expenses and losses	3,784,571	1	2,013,684	1
INCOME BEFORE INCOME TAX	111,472,246	33	121,642,026	38
INCOME TAX EXPENSE (Notes 2 and 18)	(10,949,009)	(3)	(11,709,626)	(4)
NET INCOME	\$ 100,523,237	30	\$ 109,932,400	34
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 99,933,168	30	\$ 109,177,093	34
Minority interests	590,069		755,307	
	\$ 100,523,237	30	\$ 109,932,400	34
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 23)				
Basic earnings per share	\$ 4.28	\$ 3.86	\$ 4.50	\$ 4.06
Diluted earnings per share	\$ 4.25	\$ 3.83	\$ 4.50	\$ 4.06

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

(With Deloitte & Touche audit report dated January 17, 2009)
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(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	Equity Attributable to Shareholders of the Parent					Others			
	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock	Others Total
2009	\$ 54,107,498	\$ 43,705,711	\$ 640,742	\$ 152,778,079	\$ 197,124,532	\$ (1,191,165)	\$ 561,615	\$ (918,075)	\$ (1,547,625)
		12,700,973		(12,700,973)					
			(11,192)	11,192					
				(4,572,798)	(4,572,798)				
				(4,572,798)	(4,572,798)				
				(77,489,064)	(77,489,064)				
				(516,594)	(516,594)				
				(285,800)	(285,800)				
	(774,891)								
				109,177,093	109,177,093				
	(28,639)								

						118,312			118,312
5	326,952								
	101,762								
							241,821		241,821
							(122,439)		(122,439)
								(48,466,957)	(48,466,957)
7	53,732,682	56,406,684	629,550	161,828,337	218,864,571	(1,072,853)	680,997	(49,385,032)	(49,776,888)
		10,917,709		(10,917,709)					
			(237,693)	237,693					
				(3,939,883)	(3,939,883)				
3				(3,939,883)	(3,939,883)				
				(76,881,311)	(76,881,311)				

2		(512,542)	(512,542)				
		(176,890)	(176,890)				
3	(768,813)						
		99,933,168	99,933,168				
	(137,063)						
					1,554,011		1,554,011
6	166,884						
	102,279						
						(826,251)	(826,251)
						(142,088)	(142,088)
						(30,427,413)	(30,427,413)
8)	(3,220,714)	(63,293,563)	(63,293,563)			79,812,445	79,812,445
3	\$ 49,875,255	\$ 67,324,393	\$ 391,857	\$ 102,337,417	\$ 170,053,667	\$ 481,158	\$ (287,342)
							\$ 193,816

The accompanying notes are an integral part of the consolidated financial statements.
 (With Deloitte & Touche audit report dated January 17, 2009)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 99,933,168	\$ 109,177,093
Net income attributable to minority interests	590,069	755,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,512,191	80,005,395
Amortization of premium/discount of financial assets	(93,393)	(117,159)
Loss on impairment of financial assets	1,560,055	54,208
Gain on disposal of available-for-sale financial assets, net	(637,219)	(610,167)
Gain on disposal of financial assets carried at cost, net	(83,831)	(264,503)
Equity in earnings of equity method investees, net	(701,533)	(2,507,869)
Dividends received from equity method investees	1,661,134	625,130
Gain on disposal of property, plant and equipment and other assets, net	(100,285)	(85,020)
Loss on impairment of idle assets	210,477	
Deferred income tax	2,279,414	943,797
Net changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	1,412,531	(187,084)
Receivables from related parties	10,478	629,467
Notes and accounts receivable	22,180,805	(12,134,176)
Allowance for doubtful receivables	(246,056)	(48,126)
Allowance for sales returns and others	1,981,991	1,205,277
Other receivables from related parties	143,702	13,243
Other financial assets	(425,937)	842,136
Inventories	8,985,615	(2,226,106)
Prepaid expenses and other current assets	(443,462)	290,434
Increase (decrease) in:		
Accounts payable	(6,021,731)	3,218,255
Payables to related parties	(1,013,519)	(375,731)
Income tax payable	(1,794,303)	3,179,655
Bonuses payable to employees, directors and supervisors	15,369,730	
Accrued expenses and other current liabilities	(3,954,427)	913,872
Accrued pension cost	36,062	125,462
Deferred credits	(858,161)	343,878
Net cash provided by operating activities	221,493,565	183,766,668
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(59,222,654)	(84,000,985)

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Available-for-sale financial assets	(85,273,867)	(87,550,197)
Held-to-maturity financial assets	(16,523,275)	
Investments accounted for using equity method	(55,871)	(5,803,826)
Financial assets carried at cost	(463,211)	(911,323)
		(Continued)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	\$ 138,515,023	\$ 94,908,666
Held-to-maturity financial assets	15,634,620	17,325,120
Financial assets carried at cost	199,424	410,465
Property, plant and equipment and other assets	194,940	60,535
Proceeds from return of capital by investees	2,345,867	
Increase in deferred charges	(3,395,287)	(3,059,155)
Decrease (increase) in refundable deposits	10,570	(1,434,895)
Net cash paid for acquisition of subsidiaries		(404,445)
Increase in other assets	(8,163)	(228,747)
 Net cash used in investing activities	 (8,041,884)	 (70,688,787)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans		(89,720)
Proceeds from long-term bank loans	98,400	653,000
Repayments of:		
Long-term bank loans	(468,313)	(196,173)
Bonds payable		(7,000,000)
Decrease in guarantee deposits	(758,514)	(1,574,131)
Cash dividends	(76,779,032)	(77,387,302)
Cash bonus paid to employees	(3,939,883)	(4,572,798)
Bonus to directors and supervisors	(176,890)	(285,800)
Proceeds from exercise of employee stock options	227,150	436,827
Repurchase of treasury stock	(33,480,997)	(45,413,373)
Increase (decrease) in minority interests	(114,742)	19,004
 Net cash used in financing activities	 (115,392,821)	 (135,410,466)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 98,058,860	 (22,332,585)
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	 1,568,404	 (518,119)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 94,986,488	 117,837,192

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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 194,613,752	\$ 94,986,488
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SUPPLEMENTAL INFORMATION

Interest paid	\$ 676,318	\$ 922,079
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Income tax paid	\$ 10,477,018	\$ 7,585,727
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(Continued)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 60,978,527	\$ 78,889,954
Decrease (increase) in payables to contractors and equipment suppliers	(1,742,041)	5,111,031
Increase in obligations under capital leases	(13,832)	
Cash paid	\$ 59,222,654	\$ 84,000,985
Repurchase of treasury stock	\$ 30,427,413	\$ 48,466,957
Decrease (increase) in accrued expenses and other current liabilities	3,053,584	(3,053,584)
Cash paid	\$ 33,480,997	\$ 45,413,373
NONCASH FINANCING ACTIVITIES		
Current portion of bonds payable and long-term liabilities	\$ 8,222,398	\$ 280,813
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 1,126,546	\$ 3,735,875
<p>The Company acquired controlling interests in XinTec Inc. (XinTec) and Mutual-Pak Technology Co., Ltd. (Mutual-Pak) in March 2007 and July 2007, respectively, and consolidated the revenue/income and expenses/losses of these two subsidiaries from the respective acquisition dates. Fair values of assets acquired and liabilities assumed at acquisition were as follows:</p>		
Current assets		\$ 3,101,718
Property, plant and equipment		2,339,546
Other assets		436,692
Current liabilities		(1,937,407)
Long-term liabilities		(701,855)
Net amount		\$ 3,238,694
Purchase price for XinTec and Mutual-Pak		\$ 1,413,585
Less: Cash balance of XinTec and Mutual-Pak at acquisition		(1,009,140)
Net cash paid for acquisition of XinTec and Mutual-Pak		\$ 404,445

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

(With Deloitte & Touche audit report dated January 17, 2009)

(Concluded)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987 as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

TSMC is a dedicated foundry in the semiconductor industry which engaged mainly in the manufacturing, selling, packaging, testing and computer-aided designing of integrated circuits and other semiconductor devices and the manufacturing of masks.

As of December 31, 2008 and 2007, TSMC and its subsidiaries had 24,834 and 25,258 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of investees in which TSMC's ownership percentage is less than 50% but over which TSMC has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

Name of Investor	Name of Investee	Percentage of Ownership December 31		Remark
		2008	2007	
TSMC	TSMC North America	100%	100%	
	TSMC Japan Limited (TSMC Japan)	100%	100%	
	TSMC Korea Limited (TSMC Korea)	100%	100%	
	Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe)	100%	100%	
	TSMC International Investment Ltd. (TSMC International)	100%	100%	
	TSMC Global Ltd. (TSMC Global)	100%	100%	
	TSMC (Shanghai) Company Limited (TSMC Shanghai)	100%	100%	
	Chi Cherng Investment Co., Ltd. (Chi Cherng)		36%	TSMC and Hsin Ruey held in aggregate a 100% ownership of Chi Cherng as of December 31, 2007. In July 2008, Chi Cherng was merged by Hsin Ruey.
	Hsin Ruey Investment Co., Ltd. (Hsin Ruey)		36%	TSMC and Chi Cherng held in aggregate a 100% ownership of Hsin Ruey as of December 31, 2007. In August 2008, Hsin Ruey was merged by TSMC.
	VentureTech Alliance Fund III, L.P. (VTAF III)	98%	98%	
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	98%	
Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	99.5%		
	36%	37%		

	Global Unichip Corporation (GUC)			GUC became a consolidated entity of TSMC as GUC's president was assigned by TSMC and TSMC has a controlling interest over the financial, operating and personnel hiring decisions of GUC. TSMC obtained three out of five director positions in March 2007 and TSMC has a controlling interest in XinTec.
	XinTec Inc. (XinTec)	42%	43%	
	TSMC Partners, Ltd. (TSMC Partners)	100%	100%	
TSMC International	TSMC Technology, Inc. (TSMC Technology)	100%	100%	
	TSMC Development, Inc. (TSMC Development)	100%	100%	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	97%	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	97%	97%	
TSMC Development	WaferTech, LLC (WaferTech)	99.996%	99.996%	
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	51%	51%	
	Growth Fund Limited (Growth Fund)	100%		Newly established.
VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, L.L.C. (VTA Holdings)	100%	100%	

(Continued)

Name of Investor	Name of Investee	Percentage of Ownership December 31		Remark
		2008	2007	
GUC	Global Unichip Corporation-NA (GUC-NA)	100%	100%	
	Global Unichip Japan Co., Ltd. (GUC-Japan)	100%	100%	
	Global Unichip Europe B.V. (GUC-Europe)	100%		Newly established.
TSMC Partners	TSMC Design Technology Canada Inc. (TSMC Canada)	100%	100%	

(Concluded)

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of December 31, 2008:

TSMC North America is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC Japan, TSMC Korea and TSMC Europe are engaged mainly in marketing or customer service and technical supporting activities. TSMC International is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC Global, TSMC Partners and TSMC Development are engaged in investing activities. TSMC Shanghai is engaged in the manufacturing and selling of integrated circuits pursuant to the orders from and product design specifications provided by customers. Emerging Alliance, VTAF II, VTAF III, VTA Holdings, ISDF, ISDF II, and Growth Fund are engaged in investing in new start-up technology companies. TSMC Canada and TSMC Technology are engaged mainly in engineering support activities. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. GUC is engaged in researching, developing, manufacturing, testing and marketing of integrated circuits. GUC-NA, GUC-Japan, and GUC-Europe are engaged in providing products consulting in North America, Japan, and Europe, respectively. XinTec is engaged in the provision of wafer packaging service. Mutual-Pak is engaged in the manufacturing and selling of electronic parts, and researching, developing and testing of RFID.

Chi Cherng and Hsin Ruey, both 100% owned subsidiaries of TSMC, were engaged in investing activities. To simplify the organization structure of investment, TSMC merged Chi Cherng and Hsin Ruey in the third quarter of 2008.

TSMC together with its subsidiaries are hereinafter referred to collectively as the Company .

Minority interests in the aforementioned subsidiaries are presented as a separate component of shareholders equity.

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

Repurchase agreements collateralized by government bonds, asset-backed commercial papers and corporate notes acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

Fair value is determined as follows: Publicly traded stocks – closing prices at the end of the year; derivatives using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

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

Fair value is determined as follows: Structured time deposits – using valuation techniques; open-end mutual funds and money market funds – net asset values at the end of the year; publicly traded stocks – closing prices at the end of the year; and other debt securities – average of bid and asked prices at the end of the year.

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

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

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

Held-to-maturity Financial Assets

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

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

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of notes and accounts receivable. The Company determines the amount of the allowance for doubtful receivables by examining the aging analysis of outstanding notes and accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for work in process and finished goods. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Year-end inventories are evaluated for estimated excess quantities and obsolescence.

based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

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Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, Long-term Investments Accounted for Using the Equity Method, the cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). If there is objective evidence which indicates that a investment is impaired, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

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

Gains or losses on sales from the Company to equity method investees or from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties.

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

Financial Assets Carried at Cost

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

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

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

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, with the corresponding amount recorded as obligations under capital leases. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction year are capitalized. Maintenance and

repairs are expensed as incurred.

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Depreciation is computed using the straight-line method over the following estimated service lives: land improvements 20 years; buildings 10 to 20 years; machinery and equipment 3 to 10 years; office equipment 3 to 15 years; and leased assets 20 years.

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

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

Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Prior to January 1, 2006, goodwill was amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised Statement of Financial Accounting Standards No. 25, Business Combinations Accounting Treatment under Purchase Method, goodwill is no longer amortized and instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized over the following periods: Technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract; software and system design costs and other charges 2 to 5 years. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

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

Pension Costs

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

Government Subsidies

Income-related subsidies from governments are recognized in earnings when the requirements for subsidies are met.

Income Tax

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

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

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

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

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

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity. When TSMC retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus and additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus and treasury stock transactions and to retained earnings for any remaining amount.

TSMC's stock held by its subsidiaries is treated as treasury stock and reclassified from investments accounted for using equity method to treasury stock. The gains resulted from disposal of the treasury stock held by subsidiaries and cash dividends received by subsidiaries from TSMC are recorded under capital surplus and treasury stock transactions.

Foreign-currency Transactions

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

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

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Translation of Foreign-currency Financial Statements

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities spot rates at year-end; shareholders equity historical rates; income and expenses average rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders equity.

Recent Accounting Pronouncements

The Accounting Research and Development Foundation (ARDF) of the R.O.C. revised Statement of Financial Accounting Standards No. 10, Accounting for Inventories (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009.

Reclassification

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the consolidated financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

Effective January 1, 2008, the Company adopted Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors issued in March 2007 by the ARDF, which requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than as an appropriation of earnings. The adoption of this interpretation resulted in a decrease in net income and earnings per share of NT\$12,827,595 thousand and NT\$0.50, respectively, for the year ended December 31, 2008.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39,

Accounting for Share-based Payment, which requires companies to record share-based payment transactions in the financial statements at fair value. Such a change in accounting principle did not have any effect on the Company's consolidated financial statements as of and for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash and deposits in banks	\$ 185,943,439	\$ 84,105,377
Repurchase agreements collateralized by government bonds	8,670,313	10,067,843
Asset-backed commercial papers		522,116
Corporate notes		291,152
	\$ 194,613,752	\$ 94,986,488

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

	December 31	
	2008	2007
Trading financial assets		
Publicly traded stocks	\$ 13,258	\$ 1,590,188
Forward exchange contracts	28,423	6,632
Cross currency swap contracts	14,049	35,567
	\$ 55,730	\$ 1,632,387
Trading financial liabilities		
Forward exchange contracts	\$ 35,812	\$ 185,583
Cross currency swap contracts	49,375	63,730
	\$ 85,187	\$ 249,313

The Company entered into derivative contracts during the years ended December 31, 2008 and 2007 to manage exposures due to the fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (in Thousands)
December 31, 2008		
Sell US\$/buy NT\$	January 2009 to February 2009	US\$138,900/NT\$4,558,672
Sell EUR/buy NT\$	January 2009	EUR1,500/NT\$63,150
Sell RMB/buy US\$	January 2009 to April 2009	RMB55,010/US\$8,000
Sell US\$/buy JPY	January 2009 to February 2009	US\$131/JPY11,800
December 31, 2007		
Sell US\$/buy NT\$	January 2008	US\$111,000/NT\$3,605,846
Sell EUR\$/buy NT\$	February 2008 to July 2008	EUR48,000/NT\$2,090,589

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
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December 31, 2008

January 2009	US\$307,000/NT\$10,061,232	0.54%-5.00%	0.00%-3.83%
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December 31, 2007

January 2008 to February 2008	US\$975,000/NT\$31,630,180	3.53%-5.60%	0.02%-3.01%
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For the years ended December 31, 2008 and 2007, net losses and gains arising from financial assets/liabilities at fair value through profit or loss were NT\$1,081,019 thousand and NT\$63,017 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	2007
Agency bonds	\$ 5,696,511	\$ 8,635,796
Corporate bonds	3,279,073	10,745,145
Corporate issued asset-backed securities	2,334,873	5,357,032
Money market funds	1,000,086	19,212,110
Government bonds	340,893	7,767,637
Publicly traded stocks	279,937	905,254
Structured time deposits		499,410
Open-end mutual funds		14,966,675
	12,931,373	68,089,059
Current portion	(10,898,715)	(66,688,368)
	\$ 2,032,658	\$ 1,400,691

Structured time deposits categorized as available-for-sale financial assets consisted of the following:

	Principal Amount	Carrying Amount	Interest Rate	Maturity Date
December 31, 2007				
Step-up callable deposits				
Domestic deposits	\$ 500,000	\$ 499,410	1.76%	March 2008

The interest rate of the step-up callable deposits was pre-determined by the Company and the banks.

For the years ended December 31, 2008 and 2007, the loss on impairment of available-for-sale financial assets was recognized NT\$934,584 thousand and nil, respectively.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds	\$ 18,158,679	\$ 10,900,247
Government bonds	1,506,572	7,824,425
Structured time deposits	1,643,000	1,500,000
	21,308,251	20,224,672
Current portion	(5,881,999)	(11,526,946)

\$ 15,426,252 \$ 8,697,726

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

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
December 31, 2008				
Step-up callable deposits				
Foreign deposits	\$ 1,643,000	\$ 660	4.82%	December 2011
December 31, 2007				
Step-up callable deposits				
Domestic deposits	\$ 1,500,000	\$ 5,585	1.77%-1.83%	April 2008 to October 2008

As of December 31, 2008, the principal of the structured time deposits that resided in banks located in Hong Kong amounted to US\$50,000 thousand.

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 701,807	\$ 749,888
Effect of inclusion of newly consolidated subsidiaries		45
Provision	14,880	2,964
Write-off	(260,936)	(51,090)
Balance, end of year	\$ 455,751	\$ 701,807

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

	Years Ended December 31	
	2008	2007
Balance, beginning of year	\$ 4,089,035	\$ 2,870,802
Effect of inclusion of newly consolidated subsidiaries		12,956
Provision	8,825,695	5,705,576
Write-off	(6,843,704)	(4,500,299)
Balance, end of year	\$ 6,071,026	\$ 4,089,035

9. INVENTORIES

	December 31	
	2008	2007
Finished goods	\$ 5,863,614	\$ 4,321,870
Work in process	9,078,716	17,346,862
Raw materials	1,082,700	1,862,543
Supplies and spare parts	1,152,971	1,261,715
	17,178,001	24,792,990
Allowance for losses	(2,301,356)	(930,730)
	\$ 14,876,645	\$ 23,862,260

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2008		2007	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
Vanguard International Semiconductor Corporation (VIS)	\$ 9,787,275	37	\$ 11,220,101	37
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,808,192	39	9,092,741	39
VisEra Holding Company (VisEra Holding)	2,277,126	49	2,204,447	49
Aiconn Technology Corporation (Aiconn)	34,565	44		
	\$ 18,907,158		\$ 22,517,289	

In August 2007, the Company acquired 169,600 thousand shares in VIS for NT\$4,927,865 thousand; after the acquisition, the Company's percentage of ownership in VIS increased from 27% to 37%.

For the years ended December 31, 2008 and 2007, net equity in earnings of equity method investees of NT\$701,533 thousand and NT\$2,507,869 thousand was recognized, respectively. The related equity in earnings of equity method investees was determined based on the audited financial statements of the investees for the same periods as the Company.

As of December 31, 2008 and 2007, fair values of publicly traded stocks in investments accounted for using equity method (VIS) was NT\$4,680,264 thousand and NT\$15,189,200 thousand, respectively.

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

Years Ended December 31

	2008	2007
Balance, beginning of year	\$ 2,589,742	\$ 952,159
Addition		1,968,622
Amortization	(599,121)	(331,039)
Balance, end of year	\$ 1,990,621	\$ 2,589,742

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As of December 31, 2008 and 2007, the ending balances of the aforementioned difference allocated to goodwill were both NT\$1,061,885 thousand.

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2008	2007
Non-publicly traded stocks	\$ 3,453,454	\$ 3,462,372
Mutual funds	161,993	383,247
	\$ 3,615,447	\$ 3,845,619

For the years ended December 31, 2008 and 2007, the loss on impairment of financial assets carried at cost was recognized NT\$625,471 thousand and NT\$54,208 thousand, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2008					
	Balance, Beginning of Year	Addition (Deductions)	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Cost						
Land and land improvements	\$ 942,197	\$	\$	\$ 821	\$ 10,839	\$ 953,857
Buildings	118,640,027	12,750,078	(8,524)	(706)	869,121	132,249,996
Machinery and equipment	646,419,427	50,423,075	(1,320,975)	131,067	1,846,149	697,498,743
Office equipment	11,829,640	997,253	(294,526)	(167,598)	66,031	12,430,800
Leased asset	652,296	13,832			56,211	722,339
	778,483,587	\$ 64,184,238	\$ (1,624,025)	\$ (36,416)	\$ 2,848,351	843,855,735
Accumulated depreciation						
Land and land improvements	262,703	\$ 28,613	\$	\$	\$ 4,582	295,898
Buildings	63,239,922	9,117,602	(8,524)	393	332,306	72,681,699
Machinery and equipment	467,665,072	68,349,425	(1,179,517)	(35,055)	1,162,366	535,962,291
Office equipment	8,796,752	1,223,475	(293,433)	(84,663)	51,678	9,693,809
Leased asset	135,118	33,901			13,551	182,570
	540,099,567	\$ 78,753,016	\$ (1,481,474)	\$ (119,325)	\$ 1,564,483	618,816,267
Advance payments and construction in progress	21,868,167	\$ (3,205,711)	\$	\$ (98,013)	\$ 41,439	18,605,882

Net \$ 260,252,187 \$ 243,645,350

Year Ended December 31, 2007

	Balance, Beginning of Year	Effect of Inclusion of Newly Consolidated Subsidiaries	Addition	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, Ending of Year
Cost							
Land and land improvements	\$ 844,644	\$ 101,518	\$	\$	\$	\$ (3,965)	\$ 942,197
Buildings	112,595,124	71,053	5,522,828	(31,836)	(11,518)	494,376	118,640,027
Machinery and equipment	579,825,289	2,430,982	63,828,487	(504,132)	241,750	597,051	646,419,427
Office equipment	10,646,725	547,188	1,064,259	(350,611)	(78,898)	977	11,829,640
Leased asset	612,941					39,355	652,296
	704,524,723	\$ 3,150,741	\$ 70,415,574	\$ (886,579)	\$ 151,334	\$ 1,127,794	778,483,587
Accumulated depreciation							
Land and land improvements	234,377	\$	\$ 29,798	\$	\$	\$ (1,472)	262,703
Buildings	54,288,225	1,111	8,901,910	(30,957)	2,709	76,924	63,239,922
Machinery and equipment	400,579,587	584,690	67,018,215	(255,143)	(156,839)	(105,438)	467,665,072
Office equipment	7,839,303	76,238	1,232,781	(350,147)	(2,362)	939	8,796,752
Leased asset	96,592		31,429			7,097	135,118
	463,038,084	\$ 662,039	\$ 77,214,133	\$ (636,247)	\$ (156,492)	\$ (21,950)	540,099,567
Advance payments and construction in progress	12,607,551	\$ 480,580	\$ 8,474,380	\$	\$ 288,805	\$ 16,851	21,868,167
Net	\$ 254,094,190						\$ 260,252,187

The Company entered into agreements to lease buildings that qualify as capital leases. The terms of the leases ranged from December 2003 to December 2013. The future minimum lease payments as of December 31, 2008 is NT\$803,603 thousand.

13. DEFERRED CHARGES, NET

	Year Ended December 31, 2008						
	Balance, Beginning of Year	Addition	Amortization	Disposal	Reclassification	Effect of Exchange Rate Changes	Balance, Ending of Year
	Technology license fee	\$ 5,819,148	\$ 9,256	\$ (1,691,242)	\$	\$	\$ (11,950)
Software and system design costs	1,449,603	1,171,163	(806,096)	(14,279)	59	1,381	1,801,831
Patent and others	654,850	754,402	(218,957)			8,490	1,198,785
	\$ 7,923,601	\$ 1,934,821	\$ (2,716,295)	\$ (14,279)	\$ 59	\$ (2,079)	\$ 7,125,828

	Year Ended December 31, 2007							
	Balance, Beginning of Year	Effect of Inclusion of Newly Consolidated Subsidiaries	Addition	Amortization	Disposal	Reclassification	Effect of Exchange Rate Changes	Balance, Ending of Year
	Technology license fee	\$ 4,132,174	\$ 201,941	\$ 3,515,908	\$ (1,739,949)	\$	\$ (296,423)	\$ 5,497
Software and system design costs	1,669,781	2,778	1,275,329	(929,920)	(321)	(569,648)	1,604	1,449,603
Patent and others	134,960	29,779	311,827	(124,209)	(134)	296,423	6,204	654,850
	\$ 5,936,915	\$ 234,498	\$ 5,103,064	\$ (2,794,078)	\$ (455)	\$ (569,648)	\$ 13,305	\$ 7,923,601

14. BONDS PAYABLE

	December 31	
	2008	2007
Domestic unsecured bonds: Issued in January 2002 and repayable in 2009 and 2012 in two installments, 2.75% and 3.00% interest payable annually, respectively	\$ 12,500,000	\$ 12,500,000
Current portion	(8,000,000)	

\$ 4,500,000 \$ 12,500,000

As of December 31, 2008, future principal repayments for the bonds payable were as follows:

Year of Repayment	Amount
2009	\$ 8,000,000
2012	4,500,000
	\$ 12,500,000

15. LONG-TERM BANK LOANS

	December 31	
	2008	2007
Secured loans:		
Repayable from August 2009 in 17 quarterly installments, annual interest at 2.56%-3.67% in 2008 and 2.91%-2.99% in 2007	\$ 728,400	\$ 630,000
US\$20,000 thousand, repayable in full in one lump sum payment in November 2010, annual interest at 3.62% in 2008 and 5.88% in 2007	658,719	648,941
		(Continued)

	December 31	
	2008	2007
Repayable from December 2007 in 8 semi-annual installments, annual interest at 2.42%-3.23% in 2008 and 2.39%-3.20% in 2007	\$ 168,750	\$ 456,750
Repayable from May 2007 in 16 quarterly installments, annual interest at 2.42%-3.00% in 2008 and 2.48%-2.85% in 2007	37,828	54,641
Repayable from March 2007 in 12 quarterly installments, annual interest at 2.53%-3.21% in 2008 and 2.79%-3.16% in 2007	32,472	124,944
Repayable from April 2005 in 16 quarterly installments, annual interest at 2.42%-3.00% in 2008 and 2.51%-2.85% in 2007	8,995	44,975
Repayable from February 2005 in 17 quarterly installments, annual interest at 2.56%-3.15% in 2008 and 2.65%-4.53% in 2007	7,710	40,670
Unsecured loans:		
Science Park Administration (SPA) SOC loan, repayable from October 2003 in 20 quarterly installments, interest-free		2,088
	1,642,874	2,003,009
Current portion	(222,398)	(280,813)
	\$ 1,420,476	\$ 1,722,196

(Concluded)

Pursuant to the loan agreements, financial ratios calculated based on annual audited financial statements of TSMC-Shanghai as well as semi-annual and annual financial statements of XinTec must comply with predetermined financial covenants. As of December 31, 2008, TSMC Shanghai and XinTec were in compliance with all such financial covenants.

As of December 31, 2008, future principal repayments for the long-term bank loans were as follows:

Year of Repayment	Amount
2009	\$ 222,398
2010	916,847
2011	212,269
2012	174,816
2013 and thereafter	116,544
	\$ 1,642,874

16. OTHER LONG-TERM PAYABLES

	December 31	
	2008	2007
Payables for acquisition of property, plant and equipment (Note 28i)	\$ 8,579,726	\$ 7,908,516

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Payables for royalties	2,095,046	5,174,644
	10,674,772	13,083,160
Current portion (classified under accrued expenses and other current liabilities)	(1,126,546)	(3,673,182)
	\$ 9,548,226	\$ 9,409,978

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The payables for royalties were primarily attributable to several license arrangements that the Company entered into for certain semiconductor-related patents.

As of December 31, 2008, future payments for other long-term payables were as follows:

Year of Payment	Amount
2009	\$ 1,126,546
2010	541,320
2011	427,180
2012	
2013 and thereafter	8,579,726
	\$ 10,674,772

17. PENSION PLANS

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, TSMC, GUC, XinTec and Mutual-Pak have made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts. Furthermore, TSMC North America, TSMC Shanghai, TSMC Europe and TSMC Canada are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the Company recognized pension costs of NT\$779,612 thousand and NT\$725,789 thousand for the years ended December 31, 2008 and 2007, respectively.

TSMC, GUC and XinTec have defined benefit plans under the Labor Standards Law that provide benefits based on an employee's service years and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan (originally the Central Trust of China, which was dissolved after merger with the Bank of Taiwan on July 1, 2007).

Pension information on the defined benefit plans is summarized as follows:

a. Components of net periodic pension cost for the year

	2008	2007
Service cost	\$ 151,656	\$ 184,275
Interest cost	171,345	156,391
Projected return on plan assets	(68,373)	(51,309)
Amortization	4,461	35,853
Net periodic pension cost	\$ 259,089	\$ 325,210

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2008 and 2007

	2008	2007
Benefit obligation		
Vested benefit obligation	\$ 114,930	\$ 120,146
Nonvested benefit obligation	4,182,434	3,479,132
Accumulated benefit obligation	4,297,364	3,599,278
Additional benefits based on future salaries	3,263,413	2,444,451
Projected benefit obligation	7,560,777	6,043,729
Fair value of plan assets	(2,487,577)	(2,238,997)
Funded status	5,073,200	3,804,732
Unrecognized net transition obligation	(101,326)	(109,873)
Prior service cost	169,216	
Unrecognized net loss	(1,439,506)	(41,995)
Accrued pension cost	\$ 3,701,584	\$ 3,652,864
Vested benefit	\$ 126,259	\$ 120,146

c. Actuarial assumptions at December 31, 2008 and 2007

Discount rate used in determining present values	2.00%-2.50%	2.75%-3.00%
Future salary increase rate	2.00%-3.00%	2.00%-3.00%
Expected rate of return on plan assets	2.25%-2.50%	2.50%-3.00%

d. Contributions to the Funds for the year

\$ 206,873	\$ 209,423
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e. Payments from the Funds for the year

\$ 28,990	\$ 15,003
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18. INCOME TAX

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

	Years Ended December 31	
	2008	2007
Income tax expense based on income before income tax at statutory rates	\$ 27,970,388	\$ 30,829,431
The effect of the following:		
Tax-exempt income	(9,670,500)	(7,668,367)
Temporary and permanent differences	2,122,899	(150,946)
Others	44,073	
Additional tax at 10% on unappropriated earnings	13,926	2,710,909

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Net operating loss carryforwards used	(205,234)	(814,120)
Income tax credits used	(11,109,313)	(13,899,628)
Income tax currently payable	\$ 9,166,239	\$ 11,007,279

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b. Income tax expense consisted of the following:

	Years Ended December 31	
	2008	2007
Income tax currently payable	\$ 9,166,239	\$ 11,007,279
Other income tax adjustments	(502,668)	(240,779)
Net change in deferred income tax assets		
Investment tax credits	1,060,599	5,122,450
Temporary differences	(2,129,121)	(800,374)
Net operating loss carryforwards	411,368	841,502
Valuation allowance	2,942,592	(4,220,452)
Income tax expense	\$ 10,949,009	\$ 11,709,626

c. Net deferred income tax assets consisted of the following:

	December 31	
	2008	2007
Current deferred income tax assets		
Investment tax credits	\$ 2,885,762	\$ 5,372,761
Temporary differences	1,556,474	674,154
Valuation allowance	(472,906)	(474,581)
	\$ 3,969,330	\$ 5,572,334
Noncurrent deferred income tax assets		
Investment tax credits	\$ 11,311,852	\$ 9,885,452
Temporary differences	(1,628,279)	(2,848,052)
Net operating loss carryforwards	3,588,968	3,963,123
Valuation allowance	(6,635,668)	(3,687,240)
	\$ 6,636,873	\$ 7,313,283

As of December 31, 2008, the net operating loss carryforwards generated by WaferTech, TSMC Development, TSMC Technology and Mutual-Pak would expire on various dates through 2026.

d. Integrated income tax information:

The balance of the imputation credit account (ICA) of TSMC as of December 31, 2008 and 2007 was NT\$521,634 thousand and NT\$3,012,848 thousand, respectively.

The estimated creditable ratio for distribution of TSMC's earnings of 2008 and 2007 was 0.51% and 9.83%, respectively.

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

- e. All of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

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- f. As of December 31, 2008, investment tax credits of TSMC, GUC, XinTec and Mutual-Pak consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 22,242	\$	2008
		233,915	5,921	2009
		6,178,371	114,761	2010
		4,664,206	4,664,206	2011
		2,664,162	2,664,162	2012
		\$ 13,762,896	\$ 7,449,050	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,009,834	\$	2008
		1,173,395		2009
		3,263,421	673,789	2010
		2,825,115	2,825,115	2011
		3,188,670	3,188,670	2012
		\$ 11,460,435	\$ 6,687,574	
Statute for Upgrading Industries	Personnel training expenditures	\$ 21,998	\$	2009
		23,791	23,183	2010
		37,021	37,021	2011
		786	786	2012
		\$ 83,596	\$ 60,990	

- g. The profits generated from the following projects of TSMC, GUC and XinTec are exempt from income tax for a five-year period:

	Tax-Exemption Period
Construction of Fab 14 Module A	2006 to 2010
Construction of Fab 12 Module B and expansion of Fab 14 Module A	2007 to 2011
Construction of Fab 14 Module B and expansion of Fab 12 and others	2008 to 2012
2003 plant expansion of GUC	2007 to 2011
2003 plant expansion of XinTec	2007 to 2011

- h. The tax authorities have examined income tax returns of TSMC through 2006.

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2008		
	Classified as		
	Classified as Cost of Sales	Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 19,574,249	\$ 15,654,567	\$ 35,228,816
Labor and health insurance	766,952	489,601	1,256,553
Pension	634,730	403,962	1,038,692
Meal	474,048	188,407	662,455
Welfare	640,817	273,055	913,872
Others	262,144	171,631	433,775
	\$ 22,352,940	\$ 17,181,223	\$ 39,534,163
Depreciation	\$ 74,703,223	\$ 4,033,588	\$ 78,736,811
Amortization	\$ 1,837,540	\$ 878,755	\$ 2,716,295

	Year Ended December 31, 2007		
	Classified as		
	Classified as Cost of Sales	Operating Expenses	Total
Labor cost			
Salary	\$ 11,990,153	\$ 7,562,966	\$ 19,553,119
Labor and health insurance	685,922	416,131	1,102,053
Pension	646,999	404,128	1,051,127
Meal	463,453	180,474	643,927
Welfare	249,133	266,412	515,545
Others	176,192	226,747	402,939
	\$ 14,211,852	\$ 9,056,858	\$ 23,268,710
Depreciation	\$ 73,070,781	\$ 4,100,533	\$ 77,171,314
Amortization	\$ 1,849,917	\$ 943,064	\$ 2,792,981

20. SHAREHOLDERS EQUITY

As of December 31, 2008, 1,092,053 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,460,265 thousand (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of TSMC's paid-in capital. Also, the capital surplus from long-term investment may not be used for any purpose.

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Capital surplus consisted of the following:

	December 31	
	2008	2007
From merger	\$ 22,805,390	\$ 24,003,546
Additional paid-in capital	17,962,468	19,526,492
From convertible bonds	8,893,190	9,360,424
From long-term investments	214,152	351,215
Donations	55	55
From treasury stock transactions		490,950
	\$ 49,875,255	\$ 53,732,682

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

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC's paid-in capital;
 - b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
 - c. Bonus to directors and bonus to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
 - d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.
- TSMC's Articles of Incorporation also provide that profits of TSMC may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

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

For the year ended December 31, 2008, TSMC has recorded bonuses to employees and directors with a charge to earnings of approximately 15% of net income. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the Board of Directors, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If stock bonuses are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting.

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

The appropriation for legal capital reserve shall be made until the reserve equals TSMC's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if TSMC has no unappropriated earnings and the reserve balance has exceeded 50% of TSMC's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of TSMC's

paid-in capital, up to 50% of the reserve may be transferred to capital.

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

The appropriations of earnings for 2007 and 2006 had been approved in TSMC's shareholders' meetings held on June 13, 2008 and May 7, 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal	For Fiscal	For	For
	Year 2007	Year 2006	Fiscal Year 2007	Fiscal Year 2006
Legal capital reserve	\$ 10,917,709	\$ 12,700,973		
Special capital reserve	(237,693)	(11,192)		
Bonus to employees in cash	3,939,883	4,572,798		
Bonus to employees in stock	3,939,883	4,572,798		
Cash dividends to shareholders	76,881,311	77,489,064	\$ 3.00	\$ 3.00
Stock dividends to shareholders	512,542	516,594	0.02	0.02
Bonus to directors and supervisors	176,890	285,800		
	\$ 96,130,525	\$ 100,126,835		

TSMC's shareholders meetings held on June 13, 2008 and May 7, 2007 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$768,813 thousand and NT\$774,891 thousand, respectively.

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on February 19, 2008 and February 6, 2007, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2007 and 2006, the basic earnings per share (after income tax) for the years ended December 31, 2007 and 2006 shown in the respective financial statements would have decreased from NT\$4.14 to NT\$3.84 and NT\$4.93 to NT\$4.56, respectively. The shares distributed as a bonus to employees represented 1.49% and 1.77% of TSMC's total outstanding common shares as of December 31, 2007 and 2006, respectively.

As of January 17, 2009, the Board of Directors has not resolved the appropriation for earnings of 2008.

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

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

21. STOCK-BASED COMPENSATION PLANS