

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

March 31, 2008

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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 2008**  
**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: \_\_\_\_\_.)

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**SIGNATURES**

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**SIGNATURES**

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

Taiwan Semiconductor Manufacturing  
Company Ltd.

Date: March 18, 2008

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

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**Taiwan Semiconductor Manufacturing  
Company Limited  
Financial Statements for the  
Years Ended December 31, 2007 and 2006 and  
Independent Auditors Report**

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**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, 2007 and 2006, 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, 2007 and 2006, 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.

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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, 2007 and 2006, and have expressed an unqualified opinion on the consolidated financial statements. January 10, 2008

*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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**Table of Contents****Taiwan Semiconductor Manufacturing Company Limited****BALANCE SHEETS****DECEMBER 31, 2007 AND 2006****(In Thousands of New Taiwan Dollars, Except Par Value)**

|   | 2007            |        | 2006            |        |
|---|-----------------|--------|-----------------|--------|
|   | Amount          | %      | Amount          | %      |
| <b>ASSETS</b>   |                 |        |                 |        |
| <b>CURRENT ASSETS</b>   |                 |        |                 |        |
| Cash and cash equivalents (Notes 2 and 4)                                   | \$ 72,422,102   | 13     | \$ 100,139,709  | 17     |
| Financial assets at fair value through profit or loss<br>(Notes 2, 3 and 5) | 42,083          |        | 44,601          |        |
| Available-for-sale financial assets (Notes 2, 3 and<br>6)                   | 22,267,223      | 4      | 25,967,061      | 5      |
| Held-to-maturity financial assets (Notes 2 and 7)                           | 11,526,946      | 2      | 8,510,823       | 2      |
| Receivables from related parties (Note 24)                                  | 26,701,648      | 5      | 16,869,509      | 3      |
| Notes and accounts receivable   | 17,911,328      | 3      | 16,278,164      | 3      |
| Allowance for doubtful receivables (Notes 2 and 8)                          | (688,972)       |        | (690,931)       |        |
| Allowance for sales returns and others (Notes 2 and<br>8)                   | (3,856,685)     |        | (2,751,065)     |        |
| Other receivables from related parties (Note 24)                            | 525,308         |        | 449,266         |        |
| Other financial assets  | 331,698         |        | 653,460         |        |
| Inventories, net (Notes 2 and 9)  | 20,987,142      | 4      | 19,152,214      | 3      |
| Deferred income tax assets (Notes 2 and 17)                                 | 5,268,000       | 1      | 7,832,000       | 1      |
| Prepaid expenses and other current assets                                   | 861,465         |        | 1,221,199       |        |
| <br>Total current assets  | <br>174,299,286 | <br>32 | <br>193,676,010 | <br>34 |
| <br><b>LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7,<br/>10 and 11)</b>          |                 |        |                 |        |
| Investments accounted for using equity method                               | 113,048,081     | 21     | 101,044,356     | 18     |
| Available-for-sale financial assets   | 1,397,186       |        | 6,647,511       | 1      |
| Held-to-maturity financial assets   | 8,697,726       | 2      | 28,973,495      | 5      |
| Financial assets carried at cost  | 748,160         |        | 712,843         |        |
| <br>Total long-term investments   | <br>123,891,153 | <br>23 | <br>137,378,205 | <br>24 |
| <br><b>PROPERTY, PLANT AND EQUIPMENT (Notes<br/>2, 12 and 24)</b>           |                 |        |                 |        |
| Cost  |                 |        |                 |        |
| Buildings   | 101,907,892     | 18     | 96,961,851      | 17     |
| Machinery and equipment   | 589,131,625     | 107    | 527,850,728     | 92     |
| Office equipment  | 9,167,107       | 2      | 8,659,225       | 2      |



|   |                       |            |                       |            |
|---|-----------------------|------------|-----------------------|------------|
|   | 700,206,624           | 127        | 633,471,804           | 111        |
| Accumulated depreciation                      | (486,725,019)         | (88)       | (417,467,250)         | (73)       |
| Advance payments and construction in progress | 21,082,953            | 4          | 12,230,805            | 2          |
| Net property, plant and equipment             | 234,564,558           | 43         | 228,235,359           | 40         |
| <b>INTANGIBLE ASSETS</b>                      |                       |            |                       |            |
| Goodwill (Note 2)                             | 1,567,756             |            | 1,567,756             |            |
| Deferred charges, net (Notes 2 and 13)        | 7,172,413             | 1          | 5,593,068             | 1          |
| Total intangible assets                       | 8,740,169             | 1          | 7,160,824             | 1          |
| <b>OTHER ASSETS</b>                           |                       |            |                       |            |
| Deferred income tax assets (Notes 2 and 17)   | 7,241,933             | 1          | 5,761,127             | 1          |
| Refundable deposits                           | 2,741,538             |            | 1,306,234             |            |
| Others (Note 2)                               | 293,986               |            | 67,145                |            |
| Total other assets                            | 10,277,457            | 1          | 7,134,506             | 1          |
| <b>TOTAL</b>                                  | <b>\$ 551,772,623</b> | <b>100</b> | <b>\$ 573,584,904</b> | <b>100</b> |

## **LIABILITIES AND SHAREHOLDERS EQUITY**

### **CURRENT LIABILITIES**

|   |            |   |            |   |
|---|------------|---|------------|---|
| Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5) | \$ 247,646 |   | \$ 10,751  |   |
| Accounts payable  | 9,485,818  | 2 | 6,143,679  | 1 |
| Payables to related parties (Note 24)   | 2,999,630  |   | 3,326,916  | 1 |
| Income tax payable (Notes 2 and 17)   | 10,977,963 | 2 | 7,850,418  | 1 |
| Accrued expenses and other current liabilities (Note 15)                      | 14,700,013 | 3 | 7,903,867  | 1 |
| Payables to contractors and equipment suppliers                               | 5,389,740  | 1 | 10,669,523 | 2 |
| Current portion of bonds payable (Note 14)                                    |            |   | 7,000,000  | 1 |
| Total current liabilities   | 43,800,810 | 8 | 42,905,154 | 7 |

### **LONG-TERM LIABILITIES**

|   |            |   |            |   |
|---|------------|---|------------|---|
| Bonds payable (Note 14)                             | 12,500,000 | 3 | 12,500,000 | 2 |
| Other long-term payables (Note 15)                  | 1,501,462  |   | 1,271,896  |   |
| Other payables to related parties (Notes 24 and 26) |            |   | 403,375    |   |

|   |                       |            |                       |            |
|---|-----------------------|------------|-----------------------|------------|
| Total long-term liabilities                     | 14,001,462            | 3          | 14,175,271            | 2          |
| <b>OTHER LIABILITIES</b>                        |                       |            |                       |            |
| Accrued pension cost (Notes 2 and 16)           | 3,657,679             | 1          | 3,530,116             | 1          |
| Guarantee deposits (Note 26)                    | 2,240,677             |            | 3,809,961             | 1          |
| Deferred credits (Notes 2 and 24)               | 980,593               |            | 1,183,118             |            |
| Total other liabilities                         | 6,878,949             | 1          | 8,523,195             | 2          |
| Total liabilities                               | 64,681,221            | 12         | 65,603,620            | 11         |
| <b>CAPITAL STOCK NT\$10 PAR VALUE</b>           |                       |            |                       |            |
| Authorized: 28,050,000 thousand shares in 2007  |                       |            |                       |            |
| 27,050,000 thousand shares in 2006              |                       |            |                       |            |
| Issued: 26,427,104 thousand shares in 2007      |                       |            |                       |            |
| 25,829,688 thousand shares in 2006              | 264,271,037           | 48         | 258,296,879           | 45         |
| CAPITAL SURPLUS (Notes 2 and 19)                | 53,732,682            | 10         | 54,107,498            | 10         |
| <b>RETAINED EARNINGS (Note 19)</b>              |                       |            |                       |            |
| Appropriated as legal capital reserve           | 56,406,684            | 10         | 43,705,711            | 8          |
| Appropriated as special capital reserve         | 629,550               |            | 640,742               |            |
| Unappropriated earnings                         | 161,828,337           | 29         | 152,778,079           | 26         |
|   | 218,864,571           | 39         | 197,124,532           | 34         |
| <b>OTHERS (Notes 2, 3, 21 and 23)</b>           |                       |            |                       |            |
| Cumulative translation adjustments              | (1,072,853)           |            | (1,191,165)           |            |
| Unrealized gains on financial instruments       | 680,997               |            | 561,615               |            |
| Treasury stock: 834,096 thousand shares in 2007 |                       |            |                       |            |
| 33,926 thousand shares in 2006                  | (49,385,032)          | (9)        | (918,075)             |            |
|   | (49,776,888)          | (9)        | (1,547,625)           |            |
| Total shareholders' equity                      | 487,091,402           | 88         | 507,981,284           | 89         |
| <b>TOTAL</b>                                    | <b>\$ 551,772,623</b> | <b>100</b> | <b>\$ 573,584,904</b> | <b>100</b> |

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



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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|  | <b>2007</b>    |          | <b>2006</b>    |          |
|--|----------------|----------|----------------|----------|
|  | <b>Amount</b>  | <b>%</b> | <b>Amount</b>  | <b>%</b> |
| GROSS SALES (Notes 2 and 24)   | \$ 319,167,299 |          | \$ 319,210,148 |          |
| SALES RETURNS AND ALLOWANCES (Note 2)  | 5,519,655      |          | 5,328,513      |          |
| NET SALES  | 313,647,644    | 100      | 313,881,635    | 100      |
| COST OF SALES (Notes 18 and 24)  | 176,223,224    | 56       | 164,163,235    | 52       |
| GROSS PROFIT   | 137,424,420    | 44       | 149,718,400    | 48       |
| UNREALIZED GROSS PROFIT FROM<br>AFFILIATES (Note 2)                                    | 265,106        |          |                |          |
| REALIZED GROSS PROFIT  | 137,159,314    | 44       | 149,718,400    | 48       |
| OPERATING EXPENSES (Notes 18 and 24)   |                |          |                |          |
| Research and development   | 15,913,834     | 5        | 14,601,385     | 5        |
| General and administrative   | 7,660,776      | 3        | 7,190,422      | 2        |
| Marketing  | 1,332,657      |          | 1,626,734      | 1        |
| Total operating expenses   | 24,907,267     | 8        | 23,418,541     | 8        |
| INCOME FROM OPERATIONS   | 112,252,047    | 36       | 126,299,859    | 40       |
| NON-OPERATING INCOME AND GAINS   |                |          |                |          |
| Equity in earnings of equity method investees, net<br>(Notes 2 and 10)                 | 5,468,230      | 2        | 5,526,727      | 2        |
| Interest income (Note 2)   | 2,634,636      | 1        | 3,382,868      | 1        |
| Settlement income (Note 26)  | 985,114        |          | 967,506        | 1        |
| Technical service income (Notes 24 and 26)   | 712,162        |          | 670,297        |          |
| Rental income (Note 24)  | 368,748        |          | 224,281        |          |
| Gain on disposal of property, plant and equipment<br>and other assets (Notes 2 and 24) | 305,201        |          | 596,459        |          |
| Foreign exchange gain, net (Note 2)  | 71,128         |          |                |          |

|   |            |   |            |             |
|---|------------|---|------------|-------------|
| Valuation gain on financial instruments, net (Notes 2, 5 and 23)                  |            |   | 33,850     |             |
| Others (Note 24)  | 289,479    |   | 194,739    |             |
| <br>  |            |   |            |             |
| Total non-operating income and gains  | 10,834,698 | 3 | 11,596,727 | 4           |
| <br>  |            |   |            |             |
| <b>NON-OPERATING EXPENSES AND LOSSES</b>  |            |   |            |             |
| Provision for litigation loss (Note 26j)  | 1,008,635  |   |            |             |
| Interest expense  | 584,736    |   | 661,200    |             |
| Loss on settlement and disposal of financial instruments, net (Notes 2, 5 and 23) | 413,809    |   | 1,623,882  | 1           |
|   |            |   |            | (Continued) |

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|  | <b>2007</b>           |            | <b>2006</b>           |            |
|--|-----------------------|------------|-----------------------|------------|
|  | <b>Amount</b>         | <b>%</b>   | <b>Amount</b>         | <b>%</b>   |
| Valuation loss on financial instruments, net (Notes 2, 5, and 23)  | \$ 239,413            |            | \$                    |            |
| Loss on disposal of property, plant and equipment and other assets (Note 2)                                      | 4,814                 |            | 240,985               |            |
| Foreign exchange loss, net (Note 2)  |                       |            | 412,726               |            |
| Others   | 83,932                |            | 151,294               |            |
| <b>Total non-operating expenses and losses</b>   | <b>2,335,339</b>      |            | <b>3,090,087</b>      | <b>1</b>   |
| <b>INCOME BEFORE INCOME TAX</b>  | <b>120,751,406</b>    | <b>39</b>  | <b>134,806,499</b>    | <b>43</b>  |
| <b>INCOME TAX EXPENSE (Notes 2 and 17)</b>   | <b>(11,574,313)</b>   | <b>(4)</b> | <b>(7,550,582)</b>    | <b>(2)</b> |
| <b>NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES</b>                                   | <b>109,177,093</b>    | <b>35</b>  | <b>127,255,917</b>    | <b>41</b>  |
| <b>CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$82,062 THOUSAND (Note 3)</b> |                       |            | <b>(246,186)</b>      |            |
| <b>NET INCOME</b>  | <b>\$ 109,177,093</b> | <b>35</b>  | <b>\$ 127,009,731</b> | <b>41</b>  |

|   | <b>2007</b>                      |                                 | <b>2006</b>                      |                                 |
|---|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|   | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
| <b>EARNINGS PER SHARE (NT\$, Note 22)</b> |                                  |                                 |                                  |                                 |
| Basic earnings per share                  | \$ 4.58                          | \$ 4.14                         | \$ 5.10                          | \$ 4.82                         |
| Diluted earnings per share                | \$ 4.58                          | \$ 4.14                         | \$ 5.09                          | \$ 4.81                         |

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):

**2007****2006**

|   |                |                |
|---|----------------|----------------|
| NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES | \$ 109,278,855 | \$ 127,338,237 |
| NET INCOME  | \$ 109,278,855 | \$ 127,092,051 |
| EARNINGS PER SHARE (NT\$)   |                |                |
| Basic earnings per share  | \$ 4.14        | \$ 4.81        |
| Diluted earnings per share  | \$ 4.14        | \$ 4.81        |

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

(Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

| Shares (in thousands) | Capital Stock Amount | Capital Surplus | Legal Capital Reserve | Retained Earnings       |                         | Total          | Cumulative Translation Adjustments | Others Unrealized Gain on Financial Instruments | Treasury Stock |
|-----------------------|----------------------|-----------------|-----------------------|-------------------------|-------------------------|----------------|------------------------------------|---|----------------|
|                       |                      |                 |                       | Special Capital Reserve | Unappropriated Earnings |                |                                    |   |                |
| 730,025               | \$ 247,300,246       | \$ 57,117,886   | \$ 34,348,208         | \$ 2,226,427            | \$ 106,196,399          | \$ 142,771,034 | \$ (640,742)                       | \$  | \$ (9,357,503) |
|                       |                      |                 | 9,357,503             |                         | (9,357,503)             |                |                                    |   |                |
|                       |                      |                 |                       | (1,585,685)             | 1,585,685               |                |                                    |   |                |
|                       |                      |                 |                       |                         | (3,432,129)             | (3,432,129)    |                                    |   |                |
| 343,213               | 3,432,129            |                 |                       |                         | (3,432,129)             | (3,432,129)    |                                    |   |                |
|                       |                      |                 |                       |                         | (61,825,061)            | (61,825,061)   |                                    |   |                |
| 370,950               | 3,709,504            |                 |                       |                         | (3,709,504)             | (3,709,504)    |                                    |   |                |
|                       |                      |                 |                       |                         | (257,410)               | (257,410)      |                                    |   |                |
| 370,950               | 3,709,504            | (3,709,504)     |                       |                         |                         |                |                                    |   |                |
|                       |                      | 187,095         |                       |                         | 127,009,731             | 127,009,731    |                                    |   |                |



|         |             |            |            |          |              |              |             |         |         |
|---------|-------------|------------|------------|----------|--------------|--------------|-------------|---------|---------|
|         |             |            |            |          |              |              | (550,423)   |         |         |
| 14,550  | 145,496     | 429,701    |            |          |              |              |             |         |         |
|         |             | 82,320     |            |          |              |              |             |         |         |
|         |             |            |            |          |              |              |             |         | 242,248 |
|         |             |            |            |          |              |              |             |         | 319,367 |
| 829,688 | 258,296,879 | 54,107,498 | 43,705,711 | 640,742  | 152,778,079  | 197,124,532  | (1,191,165) | 561,615 | (9      |
|         |             |            | 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)     |               |            |                |                |                |            |             |
|         |                |               |               |            | 109,177,093    | 109,177,093    |                |            |             |
|         |                | (28,639)      |               |            |                |                |                | 118,312    |             |
| 10,988  | 109,875        | 326,952       |               |            |                |                |                |            |             |
|         |                | 101,762       |               |            |                |                |                |            |             |
|         |                |               |               |            |                |                |                |            | 24,325      |
|         |                |               |               |            |                |                |                |            | 95,057      |
|         |                |               |               |            |                |                |                |            | (48,400)    |
| 427,104 | \$ 264,271,037 | \$ 53,732,682 | \$ 56,406,684 | \$ 629,550 | \$ 161,828,337 | \$ 218,864,571 | \$ (1,072,853) | \$ 680,997 | \$ (49,300) |

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

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
**(In Thousands of New Taiwan Dollars)**

|   | <b>2007</b>    | <b>2006</b>    |
|---|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                |                |
| Net income  | \$ 109,177,093 | \$ 127,009,731 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |                |
| Depreciation and amortization   | 72,820,579     | 66,699,455     |
| Unrealized gross profit from affiliates   | 265,106        |                |
| Amortization of premium/discount of financial assets                              | (117,159)      | 2,399          |
| Loss (gain) on disposal of available-for-sale financial assets, net               | (271,094)      | 485            |
| Equity in earnings of equity method investees, net                                | (5,468,230)    | (5,526,727)    |
| Dividends received from equity method investees                                   | 677,147        | 626,367        |
| Gain on disposal of investments accounted for using equity method investees, net  |                | (26,031)       |
| Gain on disposal of financial assets carried at cost, net                         |                | (212)          |
| Loss on impairment of financial assets carried at cost                            |                | 36,608         |
| Gain on disposal of property, plant and equipment and other assets, net           | (300,387)      | (355,474)      |
| Deferred income tax   | 1,083,194      | 179,828        |
| Loss on idle assets   |                | 44,072         |
| Changes in operating assets and liabilities:                                      |                |                |
| Decrease (increase) in:   |                |                |
| Financial assets and liabilities at fair value through profit or loss             | 239,413        | 1,112,776      |
| Receivables from related parties  | (9,832,139)    | 4,181,095      |
| Notes and accounts receivable   | (1,633,164)    | 4,313,654      |
| Allowance for doubtful receivables  | (1,959)        | (285,413)      |
| Allowance for sales returns and others  | 1,105,620      | (1,518,904)    |
| Other receivables from related parties  | (76,042)       | 985,419        |
| Other financial assets  | 321,762        | (99,109)       |
| Inventories   | (1,834,928)    | (2,894,259)    |
| Prepaid expenses and other current assets   | 359,734        | (49,426)       |
| Increase (decrease) in:   |                |                |
| Accounts payable  | 3,342,139      | (1,908,427)    |
| Payables to related parties   | (327,286)      | (612,381)      |
| Income tax payable  | 3,127,545      | 4,034,530      |
| Accrued expenses and other current liabilities                                    | 1,259,738      | 157,262        |
| Accrued pension cost  | 127,563        | 68,724         |
| Deferred credits  | 72,747         | (95,745)       |
| <br>  |                |                |
| Net cash provided by operating activities   | 174,116,992    | 196,080,297    |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                |                |
| Acquisitions of:  |                |                |
| Available-for-sale financial assets   | (9,547,253)    | (98,679,832)   |

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|   |              |              |
|---|--------------|--------------|
| Held-to-maturity financial assets             |              | (18,554,027) |
| Investments accounted for using equity method | (7,358,685)  | (5,515,466)  |
| Financial assets carried at cost              | (36,333)     | (12,940)     |
| Property, plant and equipment                 | (81,303,047) | (77,215,811) |
|   |              | (Continued)  |

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
**(In Thousands of New Taiwan Dollars)**

|   | <b>2007</b>       | <b>2006</b>        |
|---|-------------------|--------------------|
| Proceeds from disposal or redemption of:                        |                   |                    |
| Available-for-sale financial assets                             | \$ 18,844,520     | \$ 73,212,019      |
| Held-to-maturity financial assets                               | 17,325,120        | 10,410,000         |
| Financial assets carried at cost                                |                   | 71,191             |
| Investments accounted for using equity method                   |                   | 37,946             |
| Property, plant and equipment and other assets                  | 54,509            | 1,277,729          |
| Proceeds from return of capital by investees                    | 433,551           | 162,354            |
| Increase in deferred charges                                    | (2,685,610)       | (1,272,355)        |
| Increase in refundable deposits                                 | (1,435,304)       | (1,222,592)        |
| Increase in other asset   | (232,575)         |                    |
| <br>Net cash used in investing activities                       | <br>(65,941,107)  | <br>(117,301,784)  |
| <br><b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |                   |                    |
| Repayment of bonds payable                                      | (7,000,000)       |                    |
| Increase (decrease) in guarantee deposits                       | (1,569,284)       | 917,016            |
| Cash dividends  | (77,489,064)      | (61,825,061)       |
| Cash bonus paid to employees                                    | (4,572,798)       | (3,432,129)        |
| Bonus to directors and supervisors                              | (285,800)         | (257,410)          |
| Repurchase of treasury stock                                    | (45,413,373)      |                    |
| Proceeds from exercise of employee stock options                | 436,827           | 575,197            |
| <br>Net cash used in financing activities                       | <br>(135,893,492) | <br>(64,022,387)   |
| <br><b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <br>(27,717,607)  | <br>14,756,126     |
| <br><b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>         | <br>100,139,709   | <br>85,383,583     |
| <br><b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>               | <br>\$ 72,422,102 | <br>\$ 100,139,709 |
| <br><b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>     |                   |                    |
| Interest paid   | \$ 661,200        | \$ 661,200         |
| Income tax paid   | \$ 7,330,401      | \$ 3,189,528       |

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

|  |               |               |
|--|---------------|---------------|
| Acquisition of property, plant, and equipment                          | \$ 76,023,264 | \$ 79,026,104 |
| Decrease (increase) in payables to contractors and equipment suppliers | 5,279,783     | (1,810,293)   |
| Cash paid  | \$ 81,303,047 | \$ 77,215,811 |
| Repurchase of treasury stock   | \$ 48,466,957 | \$            |
| Increase in accrued expenses and other current liabilities             | (3,053,584)   |               |
| Cash paid  | \$ 45,413,373 | \$            |

(Continued)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
**(In Thousands of New Taiwan Dollars)**

|  | <b>2007</b>  | <b>2006</b>   |
|--|--------------|---------------|
| NON-CASH INVESTING AND FINANCING ACTIVITIES  |              |               |
| Current portion of bonds payable   | \$           | \$ 7,000,000  |
| Current portion of other payables to related parties (under payables to related parties)                                       | \$           | \$ 688,591    |
| Current portion of other long-term payable (under accrued expenses and other current liabilities)                              | \$ 3,673,182 | \$ 617,892    |
| Transfer of available-for-sale financial assets and other net assets to investments accounted for using equity method (Note 6) | \$           | \$ 39,687,637 |
| The accompanying notes are an integral part of the financial statements.   |              | (Concluded)   |

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**Taiwan Semiconductor Manufacturing Company Limited**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**(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 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 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, 2007 and 2006, the Company had 20,555 and 20,202 employees, respectively.

**2. 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, 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.



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**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.

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 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**

Financial instruments 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 generally recorded in the period the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

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

**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. Prior to January 1, 2006, the difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was amortized by the straight-line method over five years, with the amortization recorded 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 (SFAS No. 5), 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 and instead shall be tested for impairment annually. 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

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realized through transactions with third parties. Gains or losses on sales between equity method investees over each of which the Company has control are deferred in proportion to the Company's weighted-average ownership percentage in the investee which records gains or losses. In transactions between equity method investees over either or both of which the Company has no control, gains or losses on sales are deferred in proportion to the multiplication of the Company's weighted-average ownership percentages in the investees. Such gains or losses are 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. 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.

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

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

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

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

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

### **Intangible Assets**

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. 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 (SFAS No. 25), goodwill is no longer amortized and instead is tested for impairment annually. If

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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 – 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.

Effective January 1, 2007, the Company adopted the newly released Statement of Financial Accounting Standards No. 37, Accounting for Intangible Assets. The Company had reassessed the useful lives and the amortization method of its recognized intangible assets at the effective date. 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 intra-period and inter-period allocations for its income tax whereby (1) a portion of current year's income tax expense is allocated to the cumulative effect of changes in accounting principles; and (2) 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.

The R.O.C. government enacted the Alternative Minimum Tax Act (the AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the tax-exempt income under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.



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**Stock-based Compensation**

Employee stock option plans that are amended or have options granted on or after January 1, 2004 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.

**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 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. 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 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**

In March 2007, the Accounting Research and Development Foundation of the R.O.C. issued an interpretation that requires companies to record the bonus paid to directors, supervisors and employees as an expense rather than an appropriation of earnings. This interpretation should be applied to financial statements for fiscal years beginning on or after January 1, 2008.

The Accounting Research and Development Foundation of the R.O.C. issued Statement of Financial Accounting Standards No. 39, Accounting for Share-based Payment (SFAS No. 39) in August 2007, which requires companies to record share-based payment transactions in the financial statements at fair value. SFAS No.39 should be applied to financial statements for fiscal years beginning on or after January 1, 2008.

The Accounting Research and Development Foundation 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. Early adoption is permitted.

**3. ACCOUNTING CHANGES**

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (SFAS No. 34) and No. 36, Financial Instruments: Disclosure and Presentation.



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The Company had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

|  | <b>Recognized<br/>as<br/>Cumulative<br/>Effect of<br/>Changes in<br/>Accounting<br/>Principles<br/>(Net of Tax)</b> | <b>Recognized<br/>as<br/>a Separate<br/>Component<br/>of<br/>Shareholders<br/>Equity</b> |
|--|---|--|
| Financial assets or liabilities at fair value through profit or loss | \$ (246,186)  | \$   |
| Available-for-sale financial assets                                  |   |  |
|  | \$ (246,186)  | \$   |

The adoption of the newly released SFASs resulted in an increase in net income before cumulative effect of changes in accounting principles of NT\$280,036 thousand, an increase in net income of NT\$33,850 thousand, and an increase in basic earnings per share (after income tax) of NT\$0.001, for the year ended December 31, 2006.

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such a change in accounting principle did not have a material effect on the Company's financial statements as of and for the year ended December 31, 2006.

**4. CASH AND CASH EQUIVALENTS**

|  | <b>December 31</b> |                |
|--|--------------------|----------------|
|  | <b>2007</b>        | <b>2006</b>    |
| Cash and deposits in banks                               | \$ 61,832,143      | \$ 68,898,115  |
| Repurchase agreements collateralized by government bonds | 10,067,843         | 31,241,594     |
| Asset-backed commercial papers                           | 522,116            |                |
|  | \$ 72,422,102      | \$ 100,139,709 |

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

|                                   | <b>December 31</b> |             |
|-----------------------------------|--------------------|-------------|
|                                   | <b>2007</b>        | <b>2006</b> |
| Derivatives financial assets      |                    |             |
| Forward exchange contracts        | \$ 6,516           | \$          |
| Cross currency swap contracts     | 35,567             | 44,601      |
|                                   | \$ 42,083          | \$ 44,601   |
| Derivatives financial liabilities |                    |             |
| Forward exchange contracts        | \$ 183,916         | \$          |
| Cross currency swap contracts     | 63,730             | 10,751      |
|                                   | \$ 247,646         | \$ 10,751   |

The Company entered into derivative contracts during the years ended December 31, 2007 and 2006 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 prescribed by SFAS No. 34. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts as of December 31, 2007:

|                    | <b>Maturity Date</b>       | <b>Contract Amount<br/>(in Thousands)</b> |
|--------------------|----------------------------|---|
| December 31, 2007  |                            |   |
| Sell US\$/buy NT\$ | January 2008               | US\$100,000                               |
| Sell EUR/buy NT\$  | February 2008 to July 2008 | EUR 48,000                                |

Outstanding cross currency swap contracts as of December 31, 2007 and 2006:

|  | <b>Contract</b> | <b>Range of</b> | <b>Range of</b> |
|--|-----------------|-----------------|-----------------|
| For the years ended December 31, 2007 and 2006, net losses arising from derivative financial instruments were NT\$924,316 thousand (including realized settlement losses of NT\$684,903 thousand and valuation losses of NT\$239,413 thousand) and NT\$1,615,796 thousand (including realized settlement losses of NT\$1,649,646 thousand and valuation gains of NT\$33,850 thousand), respectively. |                 |                 |                 |

**Table of Contents****6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

|                          | <b>December 31</b> |               |
|--------------------------|--------------------|---------------|
|                          | <b>2007</b>        | <b>2006</b>   |
| Open-end mutual funds    | \$ 14,966,675      | \$ 25,967,061 |
| Government bonds         | 4,146,082          | 1,998,067     |
| Corporate bonds          | 4,052,242          | 4,150,202     |
| Structured time deposits | 499,410            | 499,242       |
|                          | 23,664,409         | 32,614,572    |
| Current portion          | (22,267,223)       | (25,967,061)  |
|                          | \$ 1,397,186       | \$ 6,647,511  |

In 2004, the Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. In the second half year of 2006, the Company transferred investment portfolios managed by the fund managers of US\$1,277,789 thousand to TSMC Global Ltd. (TSMC-Global), a subsidiary of TSMC. The transferred investment portfolios held by TSMC Global are still being managed by the same fund managers in accordance with the aforementioned investment guidelines and terms.

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

|                           | <b>Principal<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Interest<br/>Rate</b> | <b>Maturity<br/>Date</b> |
|---------------------------|-----------------------------|----------------------------|--------------------------|--------------------------|
| December 31, 2007         |                             |                            |                          |                          |
| Step-up callable deposits |                             |                            |                          |                          |
| Domestic deposits         | \$ 500,000                  | \$ 499,410                 | 1.76%                    | March 2008               |
| December 31, 2006         |                             |                            |                          |                          |
| Step-up callable deposits |                             |                            |                          |                          |
| Domestic deposits         | \$ 500,000                  | \$ 499,242                 | 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**

|                          | <b>December 31</b> |               |
|--------------------------|--------------------|---------------|
|                          | <b>2007</b>        | <b>2006</b>   |
| Corporate bonds          | \$ 10,900,247      | \$ 13,742,541 |
| Government bonds         | 7,824,425          | 12,070,657    |
| Structured time deposits | 1,500,000          | 11,671,120    |

|                 |                            |                           |
|-----------------|----------------------------|---------------------------|
| Current portion | 20,224,672<br>(11,526,946) | 37,484,318<br>(8,510,823) |
|                 | \$ 8,697,726               | \$ 28,973,495             |

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As of December 31, 2007 and 2006, structured time deposits categorized as held-to-maturity financial assets consisted of the following:

|                                 | <b>Principal<br/>Amount</b> | <b>Interest<br/>Receivable</b> | <b>Range of<br/>Interest Rates</b> | <b>Maturity Date</b>            |
|---------------------------------|-----------------------------|--------------------------------|------------------------------------|---------------------------------|
| December 31, 2007               |                             |                                |                                    |                                 |
| Step-up callable deposits       |                             |                                |                                    |                                 |
| Domestic deposits               | \$ 1,500,000                | \$ 5,585                       | 1.77%-1.83%                        | April 2008 to October 2008      |
| December 31, 2006               |                             |                                |                                    |                                 |
| Step-up callable deposits       |                             |                                |                                    |                                 |
| Domestic deposits               | \$ 4,500,000                | \$ 13,928                      | 1.40%-1.83%                        | June 2007 to October 2008       |
| Callable range accrual deposits |                             |                                |                                    |                                 |
| Domestic deposits               | 3,911,520                   | 4,808                          | (See below)                        | September 2009 to December 2009 |
| Foreign deposits                | 3,259,600                   | 4,998                          | (See below)                        | October 2009 to January 2010    |
|                                 | \$ 11,671,120               | \$ 23,734                      |                                    |                                 |

The amount of interest earned from the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.10% and 3.45%. Based on the terms of the contracts, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the terms of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of December 31, 2007, no structured time deposit was resided in banks located in foreign countries. As of December 31, 2006, the principal of the deposits that resided in banks located in Hong Kong and Singapore amounted to US\$80,000 thousand and US\$20,000 thousand, respectively.

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

Movements of the allowance for doubtful receivables were as follows:

|                            | <b>Years Ended December 31</b> |             |
|----------------------------|--------------------------------|-------------|
|                            | <b>2007</b>                    | <b>2006</b> |
| Balance, beginning of year | \$ 690,931                     | \$ 976,344  |
| Write-off                  | (1,959)                        | (285,413)   |
| Balance, end of year       | \$ 688,972                     | \$ 690,931  |

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

**Years Ended December 31**

|                            | <b>2007</b>  | <b>2006</b>  |
|----------------------------|--------------|--------------|
| Balance, beginning of year | \$ 2,751,065 | \$ 4,269,969 |
| Provision                  | 5,519,655    | 5,328,513    |
| Write-off                  | (4,414,035)  | (6,847,417)  |
| <br>                       |              |              |
| Balance, end of year       | \$ 3,856,685 | \$ 2,751,065 |

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**Table of Contents****9. INVENTORIES, NET**

|                          | <b>December 31</b>   |                      |
|--------------------------|----------------------|----------------------|
|                          | <b>2007</b>          | <b>2006</b>          |
| Finished goods           | \$ 3,811,212         | \$ 4,754,342         |
| Work in process          | 15,867,005           | 13,251,174           |
| Raw materials            | 1,428,592            | 1,515,996            |
| Supplies and spare parts | 612,128              | 421,648              |
|                          | 21,718,937           | 19,943,160           |
| Allowance for losses     | (731,795)            | (790,946)            |
|                          | <b>\$ 20,987,142</b> | <b>\$ 19,152,214</b> |

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

|  | <b>December 31</b>         |                                 |                            |                                 |
|--|----------------------------|---------------------------------|----------------------------|---------------------------------|
|  | <b>2007</b>                |                                 | <b>2006</b>                |                                 |
|  | <b>Carrying<br/>Amount</b> | <b>% of<br/>Owner-<br/>ship</b> | <b>Carrying<br/>Amount</b> | <b>% of<br/>Owner-<br/>ship</b> |
| TSMC Global (Note 6)   | \$ 44,204,188              | 100                             | \$ 42,496,592              | 100                             |
| TSMC International Investment Ltd. (TSMC International)              | 27,688,565                 | 100                             | 26,593,749                 | 100                             |
| Vanguard International Semiconductor Corporation (VIS)               | 11,024,568                 | 36                              | 5,741,870                  | 27                              |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)             | 9,092,741                  | 39                              | 7,960,869                  | 39                              |
| TSMC (Shanghai) Company Limited (TSMC-Shanghai)                      | 8,622,715                  | 100                             | 9,027,984                  | 100                             |
| TSMC Partners, Ltd. (TSMC Partners)                                  | 4,734,180                  | 100                             | 4,433,819                  | 100                             |
| TSMC North America (TSMC-North America)                              | 2,255,647                  | 100                             | 2,014,990                  | 100                             |
| Xintec Inc. (Xintec)   | 1,501,521                  | 43                              |                            |                                 |
| VentureTech Alliance Fund II, L.P. (VTAF II)                         | 1,170,841                  | 98                              | 733,130                    | 98                              |
| VentureTech Alliance Fund III, L.P. (VTAF III)                       | 906,536                    | 98                              | 228,005                    | 98                              |
| Global UniChip Corporation (GUC)                                     | 823,552                    | 37                              | 629,755                    | 38                              |
| Emerging Alliance Fund, L.P. (Emerging Alliance)                     | 467,873                    | 99                              | 793,585                    | 99                              |
| Chi Cherng Investment Co., Ltd. (Chi Cherng)                         | 173,429                    | 36                              | 115,507                    | 36                              |
| Hsin Ruey Investment Co., Ltd. (Hsin Ruey)                           | 171,658                    | 36                              | 114,297                    | 36                              |
| TSMC Japan Limited (TSMC-Japan)                                      | 104,929                    | 100                             | 95,757                     | 100                             |
| Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe) | 88,702                     | 100                             | 49,741                     | 100                             |
| TSMC Korea Limited (TSMC-Korea)                                      | 16,436                     | 100                             | 14,706                     | 100                             |
|  | <b>\$ 113,048,081</b>      |                                 | <b>\$ 101,044,356</b>      |                                 |

In November 2006, the Company acquired 81 thousand shares in SSMC for SGD115,227 thousand from EDB Investments Pte Ltd. under a Shareholders Agreement. After the acquisition, the number of SSMC shares owned by the Company increased to 463 thousand and the Company's percentage of ownership increased from 32% to 39%.

In January 2007, the Company acquired 90,526 thousand shares in Xintec, representing 43% of its total common shares, for NT\$1,357,890 thousand.

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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%.

For the years ended December 31, 2007 and 2006, net equity in earnings of equity method investees of NT\$5,468,230 thousand and NT\$5,526,727 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, 2007 and 2006, fair values of publicly traded stocks in investments accounted for using equity method were NT\$24,319,275 thousand and NT\$17,044,040 thousand, respectively.

Movements of the difference between the cost of investments and the Company's share in investees' net assets allocated to depreciable assets for the years ended December 31, 2007 and 2006 were as follows:

|                            | <b>Year Ended December 31</b> |             |
|----------------------------|-------------------------------|-------------|
|                            | <b>2007</b>                   | <b>2006</b> |
| Balance, beginning of year | \$ 943,277                    | \$ (17,764) |
| Addition                   | 2,081,282                     | 1,010,846   |
| Reduction                  | (347,171)                     | (49,805)    |
| Balance, end of year       | \$ 2,677,388                  | \$ 943,277  |

Movements of the aforementioned difference allocated to goodwill for the years ended December 31, 2007 and 2006 were as follows:

|                            | <b>Year Ended December 31</b> |             |
|----------------------------|-------------------------------|-------------|
|                            | <b>2007</b>                   | <b>2006</b> |
| Balance, beginning of year | \$ 213,984                    | \$          |
| Addition                   | 773,365                       | 213,984     |
| Balance, end of year       | \$ 987,349                    | \$ 213,984  |

**11. FINANCIAL ASSETS CARRIED AT COST**

|                            | <b>December 31</b> |             |
|----------------------------|--------------------|-------------|
|                            | <b>2007</b>        | <b>2006</b> |
| Non-publicly traded stocks | \$ 364,913         | \$ 364,913  |
| Mutual funds               | 383,247            | 347,930     |
|                            | \$ 748,160         | \$ 712,843  |

**Table of Contents****12. PROPERTY, PLANT AND EQUIPMENT****Year Ended December 31, 2007**

|  | <b>Balance,<br/>Beginning of<br/>Year</b> | <b>Additions</b> | <b>Disposals</b> | <b>Reclassification</b> | <b>Balance,<br/>End of Year</b> |
|--|---|------------------|------------------|-------------------------|---------------------------------|
| 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<br>construction in progress | 12,230,805                                | \$ 8,268,467     | \$               | \$ 583,681              | 21,082,953                      |
| Net  | \$ 228,235,359                            |                  |                  |                         | \$ 234,564,558                  |

**Year Ended December 31, 2006**

|  | <b>Balance,<br/>Beginning of<br/>Year</b> | <b>Additions<br/>(Deduction)</b> | <b>Disposals</b> | <b>Reclassification</b> | <b>Balance,<br/>End of Year</b> |
|--|---|----------------------------------|------------------|-------------------------|---------------------------------|
| Cost   |   |                                  |                  |                         |                                 |
| Buildings  | \$ 90,769,622                             | \$ 7,160,975                     | \$ (964,370)     | \$ (4,376)              | \$ 96,961,851                   |
| Machinery and equipment                          | 459,850,773                               | 73,454,632                       | (5,218,678)      | (235,999)               | 527,850,728                     |
| Office equipment                                 | 7,850,035                                 | 1,046,724                        | (196,984)        | (40,550)                | 8,659,225                       |
|  | 558,470,430                               | \$ 81,662,331                    | \$ (6,380,032)   | \$ (280,925)            | 633,471,804                     |
| Accumulated depreciation                         |   |                                  |                  |                         |                                 |
| Buildings  | 42,902,526                                | 7,441,573                        | (748,011)        | (171)                   | 49,595,917                      |
| Machinery and equipment                          | 310,626,317                               | 55,880,978                       | (4,869,587)      | (235,908)               | 361,401,800                     |
| Office equipment                                 | 5,662,986                                 | 1,009,599                        | (196,629)        | (6,423)                 | 6,469,533                       |
|  | 359,191,829                               | \$ 64,332,150                    | \$ (5,814,227)   | \$ (242,502)            | 417,467,250                     |
| Advance payments and<br>construction in progress | 14,867,032                                | \$ (2,636,227)                   | \$               | \$                      | 12,230,805                      |

Net \$ 214,145,633 \$ 228,235,359

No interest was capitalized during the years ended December 31, 2007 and 2006.

### 13. DEFERRED CHARGES, NET

|                                  | Year Ended December 31, 2007        |              |                |           |                  | Balance,<br>End of<br>Year |
|----------------------------------|-------------------------------------|--------------|----------------|-----------|------------------|----------------------------|
|                                  | Balance,<br>Beginning<br>of<br>Year | Additions    | Amortization   | Deduction | Reclassification |                            |
| 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                  |
| 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               |

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|                                  | <b>Year Ended December 31, 2006</b>           |                  |                     |                  |                         | <b>Balance,<br/>End of<br/>Year</b> |
|----------------------------------|---|------------------|---------------------|------------------|-------------------------|-------------------------------------|
|                                  | <b>Balance,<br/>Beginning<br/>of<br/>Year</b> | <b>Additions</b> | <b>Amortization</b> | <b>Deduction</b> | <b>Reclassification</b> |                                     |
| Technology license fees          | \$ 4,985,806                                  | \$ 373,054       | \$ (1,320,309)      | \$               | \$                      | \$ 4,038,551                        |
| Software and system design costs | 1,623,276                                     | 899,301          | (1,006,141)         |                  | 1,139                   | 1,517,575                           |
| Others                           | 72,062  |                  | (35,120)            |                  |                         | 36,942                              |
|                                  | \$ 6,681,144                                  | \$ 1,272,355     | \$ (2,361,570)      | \$               | \$ 1,139                | \$ 5,593,068                        |

**14. BONDS PAYABLE**

|   | <b>December 31</b> |               |
|---|--------------------|---------------|
|   | <b>2007</b>        | <b>2006</b>   |
| Domestic unsecured bonds:   |                    |               |
| Issued in December 2000 and repayable in December 2007, 5.36% interest payable annually   | \$                 | \$ 4,500,000  |
| Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three installments, 2.60%, 2.75% and 3.00% interest payable annually, respectively | 12,500,000         | 15,000,000    |
|   | 12,500,000         | 19,500,000    |
| Current portion   |                    | (7,000,000)   |
|   | \$ 12,500,000      | \$ 12,500,000 |

As of December 31, 2007, future principal repayments for the Company's bonds were as follows:

| <b>Year of Repayment</b> | <b>Amount</b> |
|--------------------------|---------------|
| 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, 2007, future payments for other long-term payables were as follows:

| <b>Year of Payment</b> | <b>Amount</b> |
|------------------------|---------------|
|------------------------|---------------|

|   |              |
|---|--------------|
| 2008  | \$ 3,673,182 |
| 2009  | 582,027      |
| 2010  | 497,676      |
| 2011  | 421,759      |
|   | 5,174,644    |
| Current portion (classified under accrued expenses and other current liabilities) | (3,673,182)  |
|   | \$ 1,501,462 |

**Table of Contents****16. PENSION PLANS**

The Labor Pension Act (the Act) became effective on July 1, 2005. The employees who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act with their seniority as of July 1, 2005 retained or continue to be subject to the pension mechanism under the Labor Standards Law. Employees who joined the Company after July 1, 2005 can only be subject to the pension mechanism under the Act.

The pension mechanism under the Act is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts starting from July 1, 2005, and recognized pension costs of NT\$616,548 thousand and NT\$618,975 thousand for the years ended December 31, 2007 and 2006, respectively.

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

|                                 | <b>2007</b> | <b>2006</b> |
|---------------------------------|-------------|-------------|
| Service cost                    | \$ 184,232  | \$ 178,432  |
| Interest cost                   | 155,297     | 163,740     |
| Projected return on plan assets | (50,326)    | (49,115)    |
| Amortization                    | 35,596      | 12,339      |
| Net periodic pension cost       | \$ 324,799  | \$ 305,396  |

b. Reconciliation of funded status of the plan and accrued pension cost at December 31, 2007 and 2006

|  | <b>2007</b> | <b>2006</b> |
|--|-------------|-------------|
| Benefit obligation                           |             |             |
| Vested benefit obligation                    | \$ 120,146  | \$ 102,920  |
| Nonvested benefit obligation                 | 3,450,818   | 3,873,239   |
| Accumulated benefit obligation               | 3,570,964   | 3,976,159   |
| Additional benefits based on future salaries | 2,428,786   | 2,964,923   |
| Projected benefit obligation                 | 5,999,750   | 6,941,082   |
| Fair value of plan assets                    | (2,199,189) | (1,945,572) |
| Funded status                                | 3,800,561   | 4,995,510   |
| Unrecognized net transition obligation       | (107,891)   | (116,191)   |
| Unrecognized net loss                        | (34,991)    | (1,349,203) |

|                      |              |              |
|----------------------|--------------|--------------|
| Accrued pension cost | \$ 3,657,679 | \$ 3,530,116 |
| Vested benefits      | \$ 125,443   | \$ 106,645   |

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|  | <b>2007</b> | <b>2006</b> |
|--|-------------|-------------|
| c. Actuarial assumptions at December 31, 2007 and 2006 |             |             |
| Discount rate used in determining present values       | 2.75%       | 2.25%       |
| Future salary increase rate                            | 3.00%       | 3.00%       |
| Expected rate of return on plan assets                 | 3.00%       | 2.50%       |
| d. Contributions to the Fund for the year              | \$ 200,732  | \$ 230,577  |
| e. Payments from the Fund for the year                 | \$ 15,003   | \$ 10,823   |

**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:

|  | <b>Years Ended December 31</b> |               |
|--|--------------------------------|---------------|
|  | <b>2007</b>                    | <b>2006</b>   |
| Income tax expense based on income before income tax at statutory rate (25%) | \$ 30,187,852                  | \$ 33,701,625 |
| Tax effect of the following:   |                                |               |
| Tax-exempt income  | (7,602,675)                    | (12,274,041)  |
| Temporary and permanent differences  | (789,073)                      | (2,080,110)   |
| Cumulative effect of changes in accounting principles                        |                                | (82,062)      |
| Additional tax at 10% on unappropriated earnings                             | 2,686,561                      | 1,156,130     |
| Income tax credits used  | (13,740,683)                   | (12,715,377)  |
| Income tax currently payable   | \$ 10,741,982                  | \$ 7,706,165  |

- b. Income tax expense consisted of the following:

|  | <b>Years Ended December 31</b> |              |
|--|--------------------------------|--------------|
|  | <b>2007</b>                    | <b>2006</b>  |
| Income tax currently payable             | \$ 10,741,982                  | \$ 7,706,165 |
| Other income tax adjustments             | (250,863)                      | (335,411)    |
| Net change in deferred income tax assets |                                |              |
| Investment tax credits                   | 5,120,137                      | 3,908,879    |
| Temporary differences                    | (302,847)                      | (1,522,734)  |
| Valuation allowance                      | (3,734,096)                    | (2,206,317)  |
| Income tax expense                       | \$ 11,574,313                  | \$ 7,550,582 |





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

|  | <b>December 31</b>  |                     |
|--|---------------------|---------------------|
|  | <b>2007</b>         | <b>2006</b>         |
| Current deferred income tax assets         |                     |                     |
| Investment tax credits                     | \$ 5,268,000        | \$ 7,832,000        |
| Noncurrent deferred income tax assets, net |                     |                     |
| Investment tax credits                     | \$ 9,568,755        | \$ 12,124,892       |
| Temporary differences                      | 1,143,311           | 840,464             |
| Valuation allowance                        | (3,470,133)         | (7,204,229)         |
|  | <b>\$ 7,241,933</b> | <b>\$ 5,761,127</b> |

- d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2007 and 2006 was NT\$3,012,848 thousand and NT\$828,612 thousand, respectively.

The estimated creditable ratio for distribution of earnings of 2007 and 2006 was 1.86% and 5.23%, 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, 2007, investment tax credits consisted of the following:

| <b>Law/Statute</b>               | <b>Item</b>                           | <b>Total Creditable Amount</b> | <b>Remaining Creditable Amount</b> | <b>Expiry Year</b> |
|----------------------------------|---------------------------------------|--------------------------------|------------------------------------|--------------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment   | \$ 238,012                     | \$                                 | 2007               |
|                                  |                                       | 3,177,254                      |                                    | 2008               |
|                                  |                                       | 6,029,704                      |                                    | 2009               |
|                                  |                                       | 6,508,673                      | 6,508,673                          | 2010               |
|                                  |                                       | 3,696,375                      | 3,696,375                          | 2011               |
|                                  |                                       | <b>\$ 19,650,018</b>           | <b>\$ 10,205,048</b>               |                    |
| Statute for Upgrading Industries | Research and development expenditures | \$ 1,245,142                   | \$                                 | 2007               |
|                                  |                                       | 2,560,454                      |                                    | 2008               |
|                                  |                                       | 1,486,845                      | 1,029,080                          | 2009               |
|                                  |                                       | 1,781,376                      | 1,781,376                          | 2010               |

1,654,065 1,654,065 2011

\$ 8,727,882 \$ 4,464,521

(Continued)

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| Law/Statute                      | Item  | Total Creditable Amount | Remaining Creditable Amount | Expiry Year |
|----------------------------------|---|-------------------------|-----------------------------|-------------|
| Statute for Upgrading Industries | Personnel training expenditures                       | \$ 16,197               | \$                          | 2007        |
|                                  |   | 16,155                  |                             | 2008        |
|                                  |   | 46,130                  | 46,130                      | 2009        |
|                                  |   | 41,252                  | 41,252                      | 2010        |
|                                  |   | \$ 119,734              | \$ 87,382                   |             |
| Statute for Upgrading Industries | Investments in important technology-based enterprises | \$ 79,804               | \$ 79,804                   | 2010        |

(Concluded)

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

|                                 | Tax-exemption Period |
|---------------------------------|----------------------|
| Construction of Fab 12 module A | 2004 to 2007         |
| Construction of Fab 14 module A | 2006 to 2010         |
| Construction of Fab 14 module B | 2007 to 2011         |

h. The tax authorities have examined income tax returns of the Company through 2004.

**18. LABOR COST, DEPRECIATION AND AMORTIZATION**

|                            | Year Ended December 31, 2007 |                                  |               |
|----------------------------|------------------------------|----------------------------------|---------------|
|                            | Classified as Cost of Sales  | Classified as Operating Expenses | Total         |
| 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 |
|--------------|--------------|------------|--------------|

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|                            | <b>Year Ended December 31, 2006</b> |                  |               |
|----------------------------|-------------------------------------|------------------|---------------|
|                            | <b>Classified</b>                   |                  |               |
|                            | <b>as</b>                           |                  |               |
|                            | <b>Classified</b>                   | <b>Operating</b> |               |
|                            | <b>as</b>                           | <b>Expenses</b>  | <b>Total</b>  |
|                            | <b>Cost of</b>                      |                  |               |
|                            | <b>Sales</b>                        |                  |               |
| Labor cost                 |                                     |                  |               |
| Salary                     | \$ 9,877,603                        | \$ 4,172,915     | \$ 14,050,518 |
| Labor and health insurance | 686,125                             | 352,085          | 1,038,210     |
| Pension                    | 610,873                             | 313,416          | 924,289       |
| Meal                       | 449,505                             | 159,302          | 608,807       |
| Welfare                    | 184,560                             | 99,323           | 283,883       |
| Others                     | 225,615                             | 19,784           | 245,399       |
|                            | \$ 12,034,281                       | \$ 5,116,825     | \$ 17,151,106 |
| Depreciation               | \$ 61,028,727                       | \$ 3,296,764     | \$ 64,325,491 |
| Amortization               | \$ 1,430,069                        | \$ 918,011       | \$ 2,348,080  |

**19. SHAREHOLDERS EQUITY**

As of December 31, 2007, 1,132,867 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs is 5,664,337 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.

Capital surplus consisted of the following:

|                                  | <b>December 31</b> |               |
|----------------------------------|--------------------|---------------|
|                                  | <b>2007</b>        | <b>2006</b>   |
| From merger                      | \$ 24,003,546      | \$ 24,003,546 |
| Additional paid-in capital       | 19,526,492         | 19,974,431    |
| From convertible bonds           | 9,360,424          | 9,360,424     |
| From treasury stock transactions | 490,950            | 389,188       |
| From long-term investments       | 351,215            | 379,854       |
| Donations                        | 55                 | 55            |
|                                  | \$ 53,732,682      | \$ 54,107,498 |

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 has equaled 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;

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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 recorded in the year of shareholder approval and given effect to in the financial statements of that year.

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 assets, 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 2006 and 2005 had been approved in the shareholders' meetings held on May 7, 2007 and May 16, 2006, respectively. The appropriations and dividends per share were as follows:

|                                    | <b>Appropriation of Earnings</b> |                             | <b>Dividends Per Share</b>  |                             |
|------------------------------------|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                    |                                  |                             | <b>(NT\$)</b>               |                             |
|                                    | <b>For Fiscal Year 2006</b>      | <b>For Fiscal Year 2005</b> | <b>For Fiscal Year 2006</b> | <b>For Fiscal Year 2005</b> |
| Legal capital reserve              | \$ 12,700,973                    | \$ 9,357,503                |                             |                             |
| Special capital reserve            | (11,192)                         | (1,585,685)                 |                             |                             |
| Bonus to employees in cash         | 4,572,798                        | 3,432,129                   |                             |                             |
| Bonus to employees in stock        | 4,572,798                        | 3,432,129                   |                             |                             |
| Cash dividends to shareholders     | 77,489,064                       | 61,825,061                  | \$ 3.00                     | \$ 2.50                     |
| Stock dividends to shareholders    | 516,594                          | 3,709,504                   | 0.02                        | 0.15                        |
| Bonus to directors and supervisors | 285,800                          | 257,410                     |                             |                             |



\$ 100,126,835      \$ 80,428,051

The shareholders meeting held on May 7, 2007 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$774,891 thousand.

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The amounts of the appropriations of earnings for 2006 and 2005 were consistent with the resolutions of the meetings of the Board of Directors held on February 6, 2007 and February 14, 2006, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2006 and 2005, the basic earnings per share (after income tax) for the years ended December 31, 2006 and 2005 shown in the respective financial statements would have decreased from NT\$4.93 to NT\$4.56 and NT\$3.79 to NT\$3.50, respectively. The shares distributed as a bonus to employees represented 1.77 % and 1.39% of the Company's total outstanding common shares as of December 31, 2006 and 2005, respectively.

As of January 10, 2008, the Board of Directors had not resolved the appropriation for earnings of 2007.

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 under 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 were subsequently cancelled had expired as of December 31, 2007.

Information about outstanding options for the years ended December 31, 2007 and 2006 was as follows:

|                              | <b>Number of<br/>Options<br/>(in<br/>Thousands)</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price<br/>(NT\$)</b> |
|------------------------------|---|--|
| 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 cancelled            | (1,045)   | 45.9   |
| Balance, end of year         | 41,875  | 37.4   |

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|                              | <b>Number of<br/>Options<br/>(in<br/>Thousands)</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price<br/>(NT\$)</b> |
|------------------------------|---|--|
| Year ended December 31, 2006 |   |  |
| Balance, beginning of year   | 67,758  | \$39.4   |
| Options granted              | 2,758   | 40.1   |
| Options exercised            | (14,550)  | 40.1   |
| Options cancelled            | (3,152)   | 43.7   |
| <br>                         |   |  |
| Balance, end of year         | 52,814  | 39.6   |

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, 2007, information about outstanding and exercisable options was as follows:

| <b>Range of<br/>Exercise<br/>Price (NT\$)</b> | <b>Options Outstanding</b>                      |   |  | <b>Options Exercisable</b>                      |  |
|---|---|---|--|---|--|
|   | <b>Number of<br/>Options (in<br/>Thousands)</b> | <b>Weighted-<br/>average<br/>Remaining<br/>Contractual<br/>Life<br/>(Years)</b> | <b>Weighted-<br/>average<br/>Exercise<br/>Price<br/>(NT\$)</b> | <b>Number of<br/>Options (in<br/>Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise<br/>Price<br/>(NT\$)</b> |
| \$25.9-\$36.4                                 | 28,527  | 5.16  | \$33.1   | 28,528  | \$33.1   |
| \$38.9-\$51.3                                 | 13,348  | 6.89  | 46.6   | 6,838   | 46.4   |
|   | 41,875  |   | 37.4   | 35,366  | 35.6   |

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2007 and 2006. Had the Company used the fair value based method to evaluate the options granted after January 1, 2004, using the Black-Scholes model, the assumptions and pro forma results of the Company would have been as follows:

|                         | <b>Years Ended December 31</b> |               |
|-------------------------|--------------------------------|---------------|
|                         | <b>2007</b>                    | <b>2006</b>   |
| 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:             |                                |               |

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|   |               |               |
|---|---------------|---------------|
| Net income as reported                            | \$109,177,093 | \$127,009,731 |
| Pro forma net income                              | 109,095,663   | 126,889,209   |
| Earnings per share (EPS) after income tax (NT\$): |               |               |
| Basic EPS as reported                             | \$4.14        | \$ 4.82       |
| Pro forma basic EPS                               | 4.14          | 4.81          |
| Diluted EPS as reported                           | 4.14          | 4.81          |
| Pro forma diluted EPS                             | 4.14          | 4.81          |

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**Table of Contents****21. TREASURY STOCK**

(Shares in Thousands)

|   | <b>Beginning<br/>Shares</b> | <b>Addition</b> | <b>Stock<br/>Dividends</b> | <b>Ending<br/>Shares</b> |
|---|-----------------------------|-----------------|----------------------------|--------------------------|
| 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                  |
| Year ended December 31, 2006              |                             |                 |                            |                          |
| Parent company stock held by subsidiaries | 32,938                      |                 | 988                        | 33,926                   |

As of December 31, 2007 and 2006, the book value of the treasury stock was NT\$49,385,032 thousand and NT\$918,075 thousand; the market value was NT\$51,713,947 thousand and NT\$2,290,026 thousand, respectively. 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 and approved a share buyback plan to repurchase the Company's common shares up to 800,000 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. As of December 31, 2007, the Company had repurchased 800,000 thousand common shares for a total cost of NT\$48,466,957 thousand. All the treasury stock repurchased will be retired in 2008.

**22. EARNINGS PER SHARE**

|   | <b>Years Ended December 31</b>   |                                 |                                  |                                 |
|---|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|   | <b>2007</b>                      |                                 | <b>2006</b>                      |                                 |
|   | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
| Basic EPS (NT\$)  |                                  |                                 |                                  |                                 |
| Income before cumulative effect of changes in accounting principles | \$ 4.58                          | \$ 4.14                         | \$ 5.11                          | \$ 4.83                         |
| Cumulative effect of changes in accounting principles               |                                  |                                 | (0.01)                           | (0.01)                          |
| Income for the year   | \$ 4.58                          | \$ 4.14                         | \$ 5.10                          | \$ 4.82                         |
| Diluted EPS (NT\$)  |                                  |                                 |                                  |                                 |
| Income before cumulative effect of changes in accounting principles | \$ 4.58                          | \$ 4.14                         | \$ 5.10                          | \$ 4.82                         |
| Cumulative effect of changes in accounting principles               |                                  |                                 | (0.01)                           | (0.01)                          |

|                     |         |         |         |         |
|---------------------|---------|---------|---------|---------|
| Income for the year | \$ 4.58 | \$ 4.14 | \$ 5.09 | \$ 4.81 |
|---------------------|---------|---------|---------|---------|

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EPS is computed as follows:

|   | Amounts (Numerator)  |                     | Number of<br>Shares<br>(Denominator)<br>(in<br>Thousands) | EPS (NT\$)              |                        |
|---|----------------------|---------------------|---|-------------------------|------------------------|
|   | Before<br>Income Tax | After<br>Income Tax |   | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| Year ended December 31, 2007  |                      |                     |   |                         |                        |
| Basic EPS   |                      |                     |   |                         |                        |
| Income available to common shareholders   | \$ 120,751,406       | \$ 109,177,093      | 26,346,582  | \$ 4.58                 | \$ 4.14                |
| Effect of dilutive potential common stock stock options                                       |                      |                     | 21,668  |                         |                        |
| Diluted EPS   |                      |                     |   |                         |                        |
| Income available to common shareholders (including effect of dilutive potential common stock) | \$ 120,751,406       | \$ 109,177,093      | 26,368,250  | \$ 4.58                 | \$ 4.14                |
| Year ended December 31, 2006  |                      |                     |   |                         |                        |
| Basic EPS   |                      |                     |   |                         |                        |
| Income available to common shareholders   | \$ 134,478,251       | \$ 127,009,731      | 26,374,757  | \$ 5.10                 | \$ 4.82                |
| Effect of dilutive potential common stock stock options                                       |                      |                     | 24,101  |                         |                        |
| Diluted EPS   |                      |                     |   |                         |                        |
| Income available to common shareholders (including effect of dilutive potential common stock) | \$ 134,478,251       | \$ 127,009,731      | 26,398,858  | \$ 5.09                 | \$ 4.81                |

**23. DISCLOSURES FOR FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

|   | December 31        |            |                    |            |
|---|--------------------|------------|--------------------|------------|
|   | 2007               |            | 2006               |            |
|   | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value |
| Assets  |                    |            |                    |            |
| Financial assets at fair value through profit or loss | \$ 42,083          | \$ 42,083  | \$ 44,601          | \$ 44,601  |

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|                                     |            |            |            |            |
|-------------------------------------|------------|------------|------------|------------|
| Available-for-sale financial assets | 23,664,409 | 23,664,409 | 32,614,572 | 32,614,572 |
| Held-to-maturity financial assets   | 20,224,672 | 20,192,188 | 37,484,318 | 37,375,517 |

Liabilities

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Financial liabilities at fair value through profit or loss | \$ 247,646 | \$ 247,646 | \$ 10,751  | \$ 10,751  |
| Bonds payable (including current portion)                  | 12,500,000 | 12,669,987 | 19,500,000 | 19,817,149 |
| Other long-term payables (including current portion)       | 5,174,644  | 5,174,644  | 2,981,754  | 2,981,754  |

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, payables, and payables to contractors and equipment suppliers. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Fair values of financial assets/liabilities at fair value through profit or loss were estimated using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.

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- 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 during the years ended December 31, 2007 and 2006 of derivatives estimated using valuation techniques were recognized as losses of NT\$239,413 thousand and gains of NT\$33,850 thousand, respectively.
- d. As of December 31, 2007 and 2006, financial assets exposed to fair value interest rate risk were NT\$43,931,164 thousand and NT\$70,143,491 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$247,646 thousand and NT\$10,751 thousand, respectively, and financial assets exposed to cash flow interest rate risk were nil and NT\$7,171,120 thousand, respectively.
- e. Movements of the unrealized gain on financial instruments for the years ended December 31, 2007 and 2006 were as follows:

|  | <b>Year Ended December 31, 2007</b>   |   |              |
|--|---|---|--------------|
|  | <b>Valuation<br/>Gain<br/>on<br/>Available-<br/>for-sale<br/>Financial<br/>Assets</b> | <b>Equity in<br/>Valuation<br/>Gain on<br/>Available-for-<br/>sale Financial<br/>Assets Held<br/>by<br/>Investees</b> | <b>Total</b> |
| 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   |

|  | <b>Year Ended December 31, 2006</b>   |   |              |
|--|---|---|--------------|
|  | <b>Valuation<br/>Gain<br/>on<br/>Available-<br/>for-sale<br/>Financial<br/>Assets</b> | <b>Equity in<br/>Valuation<br/>Gain on<br/>Available-for-<br/>sale Financial<br/>Assets Held<br/>by<br/>Investees</b> | <b>Total</b> |

|  |            |            |            |
|--|------------|------------|------------|
| Balance, beginning of year                                 | \$         | \$         | \$         |
| Recognized directly in shareholders' equity                | 241,763    | 319,367    | 561,130    |
| Removed from shareholders' equity and recognized in losses | 485        |            | 485        |
| Balance, end of year                                       | \$ 242,248 | \$ 319,367 | \$ 561,615 |

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f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the 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.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes that the Company's exposure to default by those parties is low.
- 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.

**24. RELATED PARTY TRANSACTIONS**

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

- a. Philips, one of the major shareholders of the Company, which has become a non-related party since March 2007.
- b. Subsidiaries
  - TSMC-North America
  - TSMC-Europe
  - TSMC-Japan
  - TSMC-Shanghai
  - TSMC-Korea
- c. Investees
  - GUC (with a controlling interest)
  - VIS (accounted for using equity method)
  - SSMC (accounted for using equity method)

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## f. 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:

|                                 | 2007           |    | 2006           |    |
|---------------------------------|----------------|----|----------------|----|
|                                 | Amount         | %  | Amount         | %  |
| For the year                    |                |    |                |    |
| Sales                           |                |    |                |    |
| TSMC-North America              | \$ 192,846,641 | 61 | \$ 190,459,073 | 60 |
| Philips                         |                |    | 4,024,990      | 1  |
| Others                          | 1,072,708      |    | 972,872        |    |
|                                 | \$ 193,919,349 | 61 | \$ 195,456,935 | 61 |
| Purchases                       |                |    |                |    |
| WaferTech                       | \$ 8,774,750   | 18 | \$ 12,530,552  | 27 |
| TSMC-Shanghai                   | 5,828,541      | 12 | 4,405,843      | 10 |
| SSMC                            | 5,468,410      | 11 | 6,820,632      | 15 |
| VIS                             | 4,188,107      | 9  | 3,911,838      | 8  |
| Others                          | 1,028          |    |                |    |
|                                 | \$ 24,260,836  | 50 | \$ 27,668,865  | 60 |
| Manufacturing expenses          |                |    |                |    |
| VisEra                          | \$ 39,078      |    | \$             |    |
| Philips                         |                |    | 755,904        | 1  |
|                                 | \$ 39,078      |    | \$ 755,904     | 1  |
| Marketing expenses - commission |                |    |                |    |
| TSMC-Europe                     | \$ 316,748     | 24 | \$ 236,454     | 15 |
| TSMC-Japan                      | 220,858        | 16 | 254,758        | 16 |
| TSMC-Korea                      | 26,818         | 2  | 9,981          |    |
|                                 | \$ 564,424     | 42 | \$ 501,193     | 31 |

General and administrative expenses - rental

|   |    |         |   |    |        |
|---|----|---------|---|----|--------|
| GUC   | \$ | 6,139   |   | \$ | 14,606 |
| Research and development expenses           |    |         |   |    |        |
| TSMC Technology (primarily consulting fees) | \$ | 354,423 | 2 | \$ | 37,559 |
| TSMC Canada (primarily consulting fees)     |    | 129,665 | 1 |    |        |
| GUC   |    | 56,887  | 1 |    | 39,421 |
| Others                                      |    | 44,168  |   |    |        |
|   | \$ | 585,143 | 4 | \$ | 76,980 |

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|   | 2007          |     | 2006          |     |
|---|---------------|-----|---------------|-----|
|   | Amount        | %   | Amount        | %   |
| Sales of property, plant and equipment                  |               |     |               |     |
| TSMC-Shanghai   | \$ 3,295      | 6   | \$ 401,561    | 44  |
| WaferTech   | 546           | 1   |               |     |
|   | \$ 3,841      | 7   | \$ 401,561    | 44  |
| Non-operating income and gains                          |               |     |               |     |
| VIS (primarily technical service income, see Note 26h)  | \$ 346,260    | 3   | \$ 261,237    | 2   |
| TSMC-Shanghai (primarily technical service income)      | 338,038       | 3   | 278,295       | 2   |
| VisEra (primarily rental income)                        | 321,799       | 3   | 246,242       | 2   |
| SSMC (primarily technical service income, see Note 26e) | 290,586       | 3   | 314,953       | 3   |
| Others  | 1,731         |     |               |     |
|   | \$ 1,298,414  | 12  | \$ 1,100,727  | 9   |
| As of December 31                                       |               |     |               |     |
| Receivables   |               |     |               |     |
| TSMC-North America                                      | \$ 26,626,880 | 100 | \$ 16,461,956 | 97  |
| Philips   |               |     | 250,919       | 2   |
| Others  | 74,768        |     | 156,634       | 1   |
|   | \$ 26,701,648 | 100 | \$ 16,869,509 | 100 |
| Other receivables                                       |               |     |               |     |
| TSMC-Shanghai   | \$ 151,037    | 29  | \$ 123,853    | 28  |
| VIS   | 118,749       | 22  | 121,911       | 27  |
| TSMC-North America                                      | 98,885        | 19  | 59,547        | 13  |
| SSMC  | 84,778        | 16  | 69,568        | 15  |
| VisEra  | 40,101        | 8   | 58,980        | 13  |
| Others  | 31,758        | 6   | 15,407        | 4   |
|   | \$ 525,308    | 100 | \$ 449,266    | 100 |

Payables

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|   |              |     |              |     |
|---|--------------|-----|--------------|-----|
| VIS   | \$ 838,584   | 28  | \$ 717,562   | 22  |
| WaferTech                                   | 784,280      | 26  | 864,733      | 26  |
| SSMC  | 655,029      | 22  | 459,305      | 14  |
| TSMC-Shanghai                               | 596,581      | 20  | 478,714      | 14  |
| Philips                                     |              |     | 688,591      | 21  |
| Others                                      | 125,156      | 4   | 118,011      | 3   |
|   | \$ 2,999,630 | 100 | \$ 3,326,916 | 100 |
| Other long-term payables Philips (Note 25a) | \$           |     | \$ 403,375   | 100 |

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|                  | 2007       |    | 2006       |    |
|------------------|------------|----|------------|----|
|                  | Amount     | %  | Amount     | %  |
| Deferred credits |            |    |            |    |
| TSMC-Shanghai    | \$ 510,564 | 52 | \$ 723,661 | 61 |
| VisEra           | 62,175     | 6  | 124,350    | 11 |
|                  | \$ 572,739 | 58 | \$ 848,011 | 72 |

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

The Company deferred the 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 the 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 related rental expense and rental income were classified under non-operating expenses and income, respectively. The lease terms and prices were determined in accordance with mutual agreements.

**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 March 2008 to December 2027 and can be renewed upon expiration.

As of December 31, 2007, future lease payments were as follows:

| Year                | Amount       |
|---------------------|--------------|
| 2008                | \$ 325,608   |
| 2009                | 304,578      |
| 2010                | 255,380      |
| 2011                | 253,798      |
| 2012                | 253,798      |
| 2013 and thereafter | 1,741,955    |
|                     | \$ 3,135,117 |

**26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The significant commitments and contingencies of the Company as of December 31, 2007, except 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.

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- 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. The agreement was automatically renewed in 1992, 1997, 2002, and on January 1, 2007.
- 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, 2007, the Company had a total of US\$68,391 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 B.V.) 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 falls 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) entered into on May 12, 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. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives written notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated. Under the Termination Agreement, the Company will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request prior to January 2008 the transfer of certain technologies under the same terms and conditions as the terminated TTA. National did not make such request by the deadline, therefore the option has expired in January 2008.
- g. In December 2003, the Company entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. The Company will also license related 90-nm SOI technology from Freescale Semiconductor, Inc. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company will pay royalties to Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- h. 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.

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- i. 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, 2007, SMIC had paid US\$ 90 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.
- j. In April 2004, UniRAM Technology, Inc. filed an action with the US District Court in the Northern District of California against TSMC and TSMC North America, alleging patent infringement and trade secret misappropriation and seeking injunctive relief and damages. A jury in the District Court made a verdict in September 2007, awarding US\$30.5 million to the plaintiff. TSMC intends to pursue remedies against this verdict.

**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;



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- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 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, 2007 to manage exposures due to foreign exchange rate fluctuations. As of December 31, 2007, no forward exchange contract was outstanding.

For the year ended December 31, 2007, net gains arising from forward exchange contracts of TSMC-Shanghai were NT\$2,181 thousand (including realized settlement gains of NT\$2,064 thousand and valuation losses of NT\$117 thousand).

Xintec entered into forward exchange contracts during the year ended December 31, 2007 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2007:

|                    | <b>Maturity Date</b> | <b>Contract Amount<br/>(in Thousands)</b> |
|--------------------|----------------------|---|
| Sell US\$/buy NT\$ | January 2008         | US\$11,000                                |

For the year ended December 31, 2007, net losses arising from forward exchange contracts of Xintec were NT\$2,834 thousand (including realized settlement losses of NT\$1,283 thousand and valuation losses of NT\$1,551 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.

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## 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 |                |
|-------------------|-------------------------|----------------|
|                   | 2007                    | 2006           |
| Americas          | \$ 159,721,699          | \$ 153,974,683 |
| Asia              | 77,616,258              | 102,121,046    |
| Europe and others | 40,287,628              | 29,109,649     |
|                   | \$ 277,625,585          | \$ 285,205,378 |

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 |    |              |    |
|------------|-------------------------|----|--------------|----|
|            | 2007                    |    | 2006         |    |
|            | Amount                  | %  | Amount       | %  |
| Customer A | \$37,350,210            | 12 | \$33,610,918 | 11 |

Sales to Customer A above were made through TSMC-North America.

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**Table of Contents****TABLE1****Taiwan Semiconductor Manufacturing Company Limited and Investees****MARKETABLE SECURITIES HELD****DECEMBER 31, 2007****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)****December 31, 2007**

| Marketable Securities Type and Name                                  | Relationship with the Company | Financial Statement Account         | Shares/Units<br>(in Thousands) | Carrying Value<br>(US\$ in Thousands) | Percentage of Ownership |
|--|-------------------------------|-------------------------------------|--------------------------------|---------------------------------------|-------------------------|
| <b>Equity securities</b>   |                               |                                     |                                |                                       |                         |
| <b>Common stock</b>  |                               |                                     |                                |                                       |                         |
| <b>Equity mutual funds</b>   |                               |                                     |                                |                                       |                         |
| ABC Bond Fund  |                               | Available-for-sale financial assets | 12,239                         | \$2,045,935                           |                         |
| ABC Hwa Bond   |                               | "                                   | 132,997                        | 1,801,674                             |                         |
| ABC Taiwan Bond  |                               | "                                   | 103,016                        | 1,474,856                             |                         |
| ABC Taiwan Bond Fund   |                               | "                                   | 85,581                         | 1,310,030                             |                         |
| ABC Potential Financial Bond Fund                                    |                               | "                                   | 83,306                         | 1,236,728                             |                         |
| ABC Independent James Bond   |                               | "                                   | 77,128                         | 1,208,799                             |                         |
| ABC Taiwan Bond Fund   |                               | "                                   | 59,049                         | 915,252                               |                         |
| ABC Taiwan Income Fund   |                               | "                                   | 54,621                         | 878,682                               |                         |
| ABC Main Lucky Fund  |                               | "                                   | 68,945                         | 718,556                               |                         |
| ABC Taiwan Bond Fund   |                               | "                                   | 54,469                         | 705,033                               |                         |
| ABC Day Bond Fund  |                               | "                                   | 60,126                         | 703,824                               |                         |
| ABC Gardner Bond DAM Fund  |                               | "                                   | 54,319                         | 639,542                               |                         |
| ABC First Bond Fund  |                               | "                                   | 35,324                         | 504,206                               |                         |
| ABC Taiwan Money Management Fund                                     |                               | "                                   | 27,416                         | 413,504                               |                         |
| ABC ESCO Bond Fund   |                               | "                                   | 27,176                         | 410,054                               |                         |
| <b>Government bond</b>   |                               |                                     |                                |                                       |                         |
| Government Bond Series B   |                               | Available-for-sale financial assets |                                | 2,349,163                             |                         |
| Government Bond Series B   |                               | "                                   |                                | 1,197,121                             |                         |
| Government Bond Series D   |                               | "                                   |                                | 399,733                               |                         |
| Government Bond Series G   |                               | "                                   |                                | 200,065                               |                         |
| Government Bond Series D   |                               | Held-to-maturity financial assets   |                                | 3,651,840                             |                         |
| Government Bond Series B   |                               | "                                   |                                | 1,647,947                             |                         |
| Asian Development Bank Govt. Bond Series A                           |                               | "                                   |                                | 855,088                               |                         |
| Government Bond Series F   |                               | "                                   |                                | 799,049                               |                         |
| Government Bond Series H   |                               | "                                   |                                | 400,709                               |                         |
| European Investment Bank Bonds                                       |                               | "                                   |                                | 379,829                               |                         |
| European Bank for Reconstruction and Development Govt. Bond Series A |                               | "                                   |                                | 89,963                                |                         |



|                               |                                     |             |
|-------------------------------|-------------------------------------|-------------|
| <u>Corporate bond</u>         |                                     |             |
| Nan Bank                      | Available-for-sale financial assets | 1,573,338   |
| ay Bank                       | "                                   | 1,180,440   |
| an Power Company              | "                                   | 899,200     |
| osa Petrochemical Corporation | "                                   | 399,264     |
| osa Petrochemical Corporation | Held-to-maturity financial assets   | 3,581,667   |
| an Power Company              | "                                   | 2,630,064   |
| Ya Plastics Corporation       | "                                   | 1,804,346   |
| Corporation, Taiwan           | "                                   | 1,200,318   |
| a Steel Corporation           | "                                   | 1,000,000   |
| osa Plastic Corporation       | "                                   | 391,134     |
| ghai commercial & Saving Bank | "                                   | 292,718     |
|                               |                                     | (Continued) |

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| Table Securities Type and Name | Relationship with the Company                  | Financial Statement Account                  | December 31, 2019             |                                       |                         |
|--------------------------------|--|--|-------------------------------|---------------------------------------|-------------------------|
|                                |  |  | Shares/Unit<br>(in Thousands) | Carrying Value<br>(US\$ in Thousands) | Percent<br>of Ownership |
| Global                         | Subsidiary                                     | Investment accounted for using equity method | 1                             | \$44,204,188                          | 100                     |
| International                  | Subsidiary                                     | "  | 987,968                       | 27,688,565                            | 100                     |
|                                | Investee accounted for using equity method     | "  | 616,240                       | 11,024,568                            | 30                      |
|                                | Investee accounted for using equity method     | "  | 463                           | 9,092,741                             | 3                       |
| Partners                       | Subsidiary                                     | "  | 300                           | 4,734,180                             | 100                     |
| North America                  | Subsidiary                                     | "  | 11,000                        | 2,255,647                             | 100                     |
|                                | Investee with a controlling financial interest | "  | 91,703                        | 1,501,521                             | 4                       |
|                                | Investee with a controlling financial interest | "  | 42,572                        | 823,552                               | 3                       |
| Japan                          | Subsidiary                                     | "  | 6                             | 104,929                               | 100                     |
| Europe                         | Subsidiary                                     | "  |                               | 88,702                                | 100                     |
| Korea                          | Subsidiary                                     | "  | 80                            | 16,436                                | 100                     |
| Industrial Gases Co., Ltd.     |  | Financial assets carried at cost             | 16,783                        | 193,584                               | 100                     |
| Hu Handotai Taiwan Co., Ltd.   |  | "  | 10,500                        | 105,000                               | 100                     |
| Technology Fund IV             |  | "  | 4,000                         | 40,000                                | 100                     |
| Venture Capital Co., Ltd.      |  | "  | 2,633                         | 26,329                                | 100                     |
| Ventures Fund                  |  | Financial assets carried at cost             |                               | 312,949                               | 100                     |
| Asia Capital                   |  | "  |                               | 70,298                                | 100                     |
| Shanghai                       | Subsidiary                                     | Investment accounted for using equity method |                               | 8,622,715                             | 100                     |
|                                | Subsidiary                                     | "  |                               | 1,170,841                             | 99                      |
|                                | Subsidiary                                     | "  |                               | 906,536                               | 99                      |
| g Alliance                     | Subsidiary                                     | "  |                               | 467,873                               | 99                      |
| ng                             | Subsidiary                                     | "  |                               | 173,429                               | 30                      |

ey

|            |   |  |         |   |
|------------|---|--|---------|---|
| Subsidiary | " |  | 171,658 | 3 |
|------------|---|--|---------|---|

|                |                                     |        |           |
|----------------|-------------------------------------|--------|-----------|
| Parent Company | Available-for-sale financial assets | 17,032 | 1,055,984 |
|----------------|-------------------------------------|--------|-----------|

|  |   |       |         |
|--|---|-------|---------|
| Investee accounted for using equity method | Investments accounted for using equity method | 5,082 | 109,815 |
|--|---|-------|---------|

|                |                                     |        |           |
|----------------|-------------------------------------|--------|-----------|
| Parent Company | Available-for-sale financial assets | 17,064 | 1,057,963 |
|----------------|-------------------------------------|--------|-----------|

|  |   |       |        |
|--|---|-------|--------|
| Investee accounted for using equity method | Investments accounted for using equity method | 3,748 | 85,718 |
|--|---|-------|--------|

|            |   |       |             |   |
|------------|---|-------|-------------|---|
| Subsidiary | Investments accounted for using equity method | 8,721 | US\$ 42,038 | 9 |
|------------|---|-------|-------------|---|

|            |   |        |             |   |
|------------|---|--------|-------------|---|
| Subsidiary | " | 43,048 | US\$ 57,594 | 9 |
|------------|---|--------|-------------|---|

|                |            |   |   |              |    |
|----------------|------------|---|---|--------------|----|
| II Development | Subsidiary | " | 1 | US\$ 674,084 | 10 |
|----------------|------------|---|---|--------------|----|

|            |            |   |   |            |    |
|------------|------------|---|---|------------|----|
| Technology | Subsidiary | " | 1 | US\$ 6,592 | 10 |
|------------|------------|---|---|------------|----|

(Continued)

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December 31, 2013

| Investable Securities Type and Name | Relationship with the Company              | Financial Statement Account                   | Shares/Units<br>(in Thousands) | Carrying Value<br>(US\$ in Thousands) | Percentage<br>Owned |
|-------------------------------------|--|---|--------------------------------|---------------------------------------|---------------------|
| AS                                  |  |   |                                |                                       |                     |
| AS Tech                             | Subsidiary                                 | Investments accounted for using equity method |                                | US\$227,469                           |                     |
| <u>Common stock</u>                 |  |   |                                |                                       |                     |
| AS Holding Company                  | Investee accounted for using equity method | Investments accounted for using equity method | 43,000                         | US\$ 67,948                           |                     |
| AS Canada                           | Subsidiary                                 | "   | 2,300                          | US\$ 2,877                            |                     |
| <u>Common stock</u>                 |  |   |                                |                                       |                     |
| AS, Inc.                            |  | Financial assets carried at cost              | 1,036                          | US\$ 275                              |                     |
| AS Wave Technology Corp.            |  | "   | 4,247                          | US\$ 1,648                            |                     |
| AS Investment Holding Inc.          |  | "   | 10,800                         | \$ 100,000                            |                     |
| <u>Preferred stock</u>              |  |   |                                |                                       |                     |
| AS, Inc.                            |  | Financial assets carried cost                 | 1,654                          | US\$ 250                              |                     |
| AS Microdevices, Inc.               |  | "   | 1,000                          | US\$ 1,000                            |                     |
| AS, Inc.                            |  | "   | 3,040                          | US\$ 1,000                            |                     |
| AS ygen                             |  | "   | 1,415                          | US\$ 750                              |                     |
| AS ic Systems, Inc.                 |  | "   | 2,481                          | US\$ 12                               |                     |
| AS IO, Inc.                         |  | "   | 800                            | US\$ 500                              |                     |
| AS hron, Inc.                       |  | "   | 714                            | US\$ 1,000                            |                     |
| AS al Corporation                   |  | "   |                                | US\$ 229                              |                     |
| AS, Inc.                            |  | "   | 3,606                          | US\$ 862                              |                     |
| AS ovus, Inc.                       |  | "   | 6,977                          | US\$ 1,327                            |                     |
| <u>Preferred stock</u>              |  |   |                                |                                       |                     |
| AS Tech Alliance Holdings           | Subsidiary                                 | Investments accounted for using equity method |                                |                                       |                     |
| <u>Common stock</u>                 |  |   |                                |                                       |                     |
| AS n                                |  | Financial assets carried at cost              | 1,875                          | US\$ 919                              |                     |
| AS lic                              |  | "   | 1,200                          | US\$ 2,040                            |                     |
| AS rend                             |  | "   | 1,265                          | US\$ 660                              |                     |
| AS Wave Technology Corp.            |  | "   | 1,043                          | US\$ 730                              |                     |
| <u>Preferred stock</u>              |  |   |                                |                                       |                     |
| AS echnologies, Inc.                |  | Financial assets carried cost                 | 2,357                          | US\$ 1,768                            |                     |
| AS echnologies, Inc.                |  | "   | 2,030                          | US\$ 2,074                            |                     |
| AS ntia Corporation                 |  | "   | 1,786                          | US\$ 2,273                            |                     |
| AS ence, Inc.                       |  | "   | 2,989                          | US\$ 814                              |                     |

|                           |   |       |      |       |
|---------------------------|---|-------|------|-------|
| Microdevices, Inc.        | " | 5,044 | US\$ | 2,088 |
| Communications            | " | 650   | US\$ | 1,600 |
| Fire Corporation          | " | 600   | US\$ | 68    |
| , Inc.                    | " | 475   | US\$ | 1,000 |
| ia, Inc.                  | " | 3,416 | US\$ | 3,106 |
| lygen                     | " | 569   | US\$ | 149   |
| IO, Inc.                  | " | 216   | US\$ | 182   |
| hron, Inc.                | " | 1,050 | US\$ | 1,844 |
| , Inc.                    | " | 3,279 | US\$ | 641   |
| r Analog Microelectronics | " | 3,039 | US\$ | 2,409 |
| Holding, LLC              | " |       | US\$ | 145   |
| ovus, Inc.                | " | 1,599 | US\$ | 454   |

(Continued)

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|  |                                      | <b>December 31, 2019</b>                              |                            |
|--|--------------------------------------|---|----------------------------|
|  |                                      | <b>Shares/Units</b>                                   | <b>Carrying Value</b>      |
|  |                                      | <b>(in thousands)</b>                                 | <b>(US\$ in thousands)</b> |
| <b>Marketable Securities Type and Name</b> | <b>Relationship with the Company</b> | <b>Financial Statement Account</b>                    | <b>Accounting Method</b>   |
| Tzero Technologies, Inc.                   |                                      | Financial assets carried cost                         | 730 US\$ 1,500             |
| Xceive                                     |                                      | "   | 714 US\$ 1,000             |
| <b>Capital</b>                             |                                      |   |                            |
| VentureTech Alliance Holdings              | Subsidiary                           | Investments accounted for using equity method         |                            |
| <b>Common stock</b>                        |                                      |   |                            |
| Mutual-pak Technology Co., Ltd.            | Subsidiary                           | Investments accounted for using equity method         | 4,590 US\$ 1,672           |
| <b>Preferred stock</b>                     |                                      |   |                            |
| Advasure Sensors, Inc.                     |                                      | "   | 1,929 US\$ 1,834           |
| Auramicro, Inc.                            |                                      | "   | 2,500 US\$ 750             |
| Exclara, Inc. (Formerly Synpitem, Inc.)    |                                      | "   | 14,513 US\$ 2,412          |
| 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           |
| <b>Convertible bond</b>                    |                                      |   |                            |
| GTBF, Inc.                                 |                                      | Financial assets carried at cost                      | US\$ 1,500                 |
| <b>Capital</b>                             |                                      |   |                            |
| VentureTech Alliance Holdings              | Subsidiary                           | Investments accounted for using equity method         |                            |
| <b>Common stock</b>                        |                                      |   |                            |
| Monolithic Power Systems, Inc.             |                                      | Financial assets at fair value through profit or loss | 1,352 US\$ 29,024          |
| Memsic, Inc.                               |                                      | Available-for-sale financial assets                   | 1,364 US\$ 13,812          |
| Capella Microsystems (Taiwan), Inc.        |                                      | Financial assets carried at cost                      | 530 US\$ 154               |
| <b>Preferred stock</b>                     |                                      |   |                            |
| Integrated Memory Logic, Inc.              |                                      | Financial assets carried at cost                      | 2,872 US\$ 1,221           |
| IP Unity, Inc.                             |                                      | "   | 1,008 US\$ 494             |

|                         |   |       |      |       |
|-------------------------|---|-------|------|-------|
| NanoAmp Solutions, Inc. | " | 541   | US\$ | 853   |
| Sonics, Inc.            | " | 1,844 | US\$ | 3,530 |

Common stock

|                                     |   |       |      |        |
|-------------------------------------|---|-------|------|--------|
| Monolithic Power Systems, Inc       | Financial assets at fair value through profit or loss | 864   | US\$ | 18,561 |
| Rich Tek Technology Corp.           | "   | 152   | US\$ | 1,371  |
| Geo Vision, Inc.                    | "   | 6     | US\$ | 59     |
| Memsic, Inc.                        | Available-for-sale financial assets                   | 1,145 | US\$ | 11,594 |
| Rich Tek Technology Corp.           | "   | 261   | US\$ | 2,362  |
| Geo Vision, Inc.                    | "   | 15    | US\$ | 135    |
| eLCOS Microdisplay Technology, Ltd. | Financial assets carried at cost                      | 270   | US\$ | 27     |
| EoNEX Technologies, Inc.            | "   | 55    | US\$ | 3,048  |
| Sonics, Inc.                        | "   | 2,220 | US\$ | 32     |
| Epic Communication, Inc.            | "   | 191   | US\$ | 37     |
| EON Technology, Corp.               | "   | 4,243 | US\$ | 1,175  |
| Goyatek Technology, Corp.           | "   | 2,088 | US\$ | 545    |
| Trendchip Technologies Corp.        | "   | 1,000 | US\$ | 574    |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | Carrying Value              |                     | Percentage Owned |
|-------------------------------------|-------------------------------|-------------------------------------|-----------------------------|---------------------|------------------|
|                                     |                               |                                     | Shares/Units (in thousands) | (US\$ in thousands) |                  |
| Apella Microsystems (Taiwan), Inc   |                               | Financial assets carried at cost    | 534                         | US\$ 210            |                  |
| Link Technology (Taiwan), Inc.      |                               | "                                   | 2,383                       | US\$ 791            |                  |
| Inden Technology MFG. Co., Ltd      |                               | "                                   | 1,049                       | US\$ 223            |                  |
| <b>Preferred stock</b>              |                               |                                     |                             |                     |                  |
| Chip Technologies Limited           |                               | Financial assets carried at cost    | 6,128                       | US\$2,950           |                  |
| COS Microdisplay Technology, Ltd.   |                               | "                                   | 3,500                       | US\$3,500           |                  |
| ingTek, Inc.                        |                               | "                                   | 6,931                       | US\$3,250           |                  |
| lopass Technology, Inc.             |                               | "                                   | 3,887                       | US\$2,000           |                  |
| anoAmp Solutions, Inc.              |                               | "                                   | 375                         | US\$1,500           |                  |
| ics, Inc.                           |                               | "                                   | 2,115                       | US\$3,082           |                  |
| <b>Municipal bonds</b>              |                               |                                     |                             |                     |                  |
| d Hm Ln Pc Pool 1b1225              |                               | Available-for-sale financial assets |                             | US\$ 139            |                  |
| d Hm Ln Pc Pool 1b2566              |                               | "                                   |                             | US\$ 157            |                  |
| d Hm Ln Pc Pool 1b2632              |                               | "                                   |                             | US\$ 178            |                  |
| d Hm Ln Pc Pool 1b2642              |                               | "                                   |                             | US\$ 234            |                  |
| d Hm Ln Pc Pool 1b2776              |                               | "                                   |                             | US\$ 340            |                  |
| d Hm Ln Pc Pool 1b2792              |                               | "                                   |                             | US\$ 223            |                  |
| d Hm Ln Pc Pool 1b2810              |                               | "                                   |                             | US\$ 296            |                  |
| d Hm Ln Pc Pool 1b7453              |                               | "                                   |                             | US\$2,805           |                  |
| d Hm Ln Pc Pool 1g0038              |                               | "                                   |                             | US\$ 296            |                  |
| d Hm Ln Pc Pool 1g0053              |                               | "                                   |                             | US\$ 367            |                  |
| d Hm Ln Pc Pool 1g0104              |                               | "                                   |                             | US\$ 142            |                  |
| d Hm Ln Pc Pool 1g1282              |                               | "                                   |                             | US\$4,077           |                  |
| d Hm Ln Pc Pool 1g1411              |                               | "                                   |                             | US\$3,618           |                  |
| d Hm Ln Pc Pool 1h2520              |                               | "                                   |                             | US\$2,669           |                  |
| d Hm Ln Pc Pool 1h2524              |                               | "                                   |                             | US\$1,970           |                  |
| d Hm Ln Pc Pool 780870              |                               | "                                   |                             | US\$ 721            |                  |
| d Hm Ln Pc Pool 781959              |                               | "                                   |                             | US\$3,834           |                  |
| d Hm Ln Pc Pool 782785              |                               | "                                   |                             | US\$ 254            |                  |
| d Hm Ln Pc Pool 782837              |                               | "                                   |                             | US\$ 494            |                  |
| d Hm Ln Pc Pool 782968              |                               | "                                   |                             | US\$1,147           |                  |
| d Hm Ln Pc Pool 783022              |                               | "                                   |                             | US\$ 536            |                  |
| d Hm Ln Pc Pool 783026              |                               | "                                   |                             | US\$ 303            |                  |
| d Hm Ln Pc Pool B19205              |                               | "                                   |                             | US\$7,103           |                  |
| d Hm Ln Pc Pool E89857              |                               | "                                   |                             | US\$1,347           |                  |
| d Hm Ln Pc Pool G11295              |                               | "                                   |                             | US\$1,126           |                  |
| d Hm Ln Pc Pool M80855              |                               | "                                   |                             | US\$2,942           |                  |



|                            |   |           |   |
|----------------------------|---|-----------|---|
| ederal Home Ln Mtg Corp.   | " | US\$1,784 | M |
| ederal Home Ln Mtg Corp.   | " | US\$1,832 | M |
| ederal Home Ln Mtg Corp.   | " | US\$2,360 | M |
| ederal Home Ln Mtg Corp.   | " | US\$2,742 | M |
| ederal Home Ln Mtg Corp.   | " | US\$2,178 | M |
| ederal Home Ln Mtg Corp.   | " | US\$3,665 | M |
| ederal Home Ln Mtg Corp.   | " | US\$2,136 | M |
| ederal Home Ln Mtg Corp.   | " | US\$3,275 | M |
| ederal Home Ln Mtg Corp.   | " | US\$3,044 | M |
| ederal National Mort Assoc | " | US\$2,844 | M |
| ederal Natl Mtg Assn       | " | US\$2,059 | M |
| ederal Natl Mtg Assn       | " | US\$2,194 | M |
| ederal Natl Mtg Assn       | " | US\$2,011 | M |
| ederal Natl Mtg Assn       | " | US\$3,567 | M |
| ederal Natl Mtg Assn Gtd   | " | US\$1,717 | M |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | Carrying                                  | Percent |
|-------------------------------------|-------------------------------|-------------------------------------|---|---------|
|                                     |                               |                                     | Shares/Units<br>(in US\$ in<br>Thousands) |         |
| Fnma Pool 255883                    |                               | Available-for-sale financial assets | US\$3,126                                 | N/A     |
| Fnma Pool 555549                    |                               | "                                   | US\$1,385                                 | N/A     |
| Fnma Pool 555715                    |                               | "                                   | US\$ 171                                  | N/A     |
| Fnma Pool 632399                    |                               | "                                   | US\$ 390                                  | N/A     |
| Fnma Pool 662401                    |                               | "                                   | US\$ 560                                  | N/A     |
| Fnma Pool 667766                    |                               | "                                   | US\$1,310                                 | N/A     |
| Fnma Pool 680932                    |                               | "                                   | US\$1,110                                 | N/A     |
| Fnma Pool 681393                    |                               | "                                   | US\$2,388                                 | N/A     |
| Fnma Pool 685116                    |                               | "                                   | US\$ 599                                  | N/A     |
| Fnma Pool 691283                    |                               | "                                   | US\$3,442                                 | N/A     |
| Fnma Pool 694287                    |                               | "                                   | US\$ 20                                   | N/A     |
| Fnma Pool 703711                    |                               | "                                   | US\$ 467                                  | N/A     |
| Fnma Pool 725095                    |                               | "                                   | US\$1,023                                 | N/A     |
| Fnma Pool 730033                    |                               | "                                   | US\$ 169                                  | N/A     |
| Fnma Pool 740934                    |                               | "                                   | US\$1,110                                 | N/A     |
| Fnma Pool 742232                    |                               | "                                   | US\$ 23                                   | N/A     |
| Fnma Pool 750798                    |                               | "                                   | US\$ 22                                   | N/A     |
| Fnma Pool 773246                    |                               | "                                   | US\$ 229                                  | N/A     |
| Fnma Pool 790828                    |                               | "                                   | US\$2,009                                 | N/A     |
| Fnma Pool 793932                    |                               | "                                   | US\$ 438                                  | N/A     |
| Fnma Pool 794040                    |                               | "                                   | US\$ 608                                  | N/A     |
| Fnma Pool 795548                    |                               | "                                   | US\$ 234                                  | N/A     |
| Fnma Pool 799664                    |                               | "                                   | US\$ 94                                   | N/A     |
| Fnma Pool 799868                    |                               | "                                   | US\$ 32                                   | N/A     |
| Fnma Pool 804764                    |                               | "                                   | US\$ 396                                  | N/A     |
| Fnma Pool 804852                    |                               | "                                   | US\$ 330                                  | N/A     |
| Fnma Pool 804962                    |                               | "                                   | US\$ 388                                  | N/A     |
| Fnma Pool 805163                    |                               | "                                   | US\$ 408                                  | N/A     |
| Fnma Pool 806642                    |                               | "                                   | US\$ 777                                  | N/A     |
| Fnma Pool 806721                    |                               | "                                   | US\$ 635                                  | N/A     |
| Fnma Pool 814418                    |                               | "                                   | US\$ 343                                  | N/A     |
| Fnma Pool 815626                    |                               | "                                   | US\$2,301                                 | N/A     |
| Fnma Pool 819423                    |                               | "                                   | US\$ 538                                  | N/A     |
| Fnma Pool 821129                    |                               | "                                   | US\$ 512                                  | N/A     |
| Fnma Pool 888249                    |                               | "                                   | US\$ 60                                   | N/A     |
| Fnma Pool 888499                    |                               | "                                   | US\$2,438                                 | N/A     |
| Fnma Pool 888502                    |                               | "                                   | US\$ 236                                  | N/A     |
| Fnma Pool 888507                    |                               | "                                   | US\$ 911                                  | N/A     |
| Fnma Pool 888515                    |                               | "                                   | US\$1,730                                 | N/A     |

|                     |   |           |     |
|---------------------|---|-----------|-----|
| Fnma Pool 888519    | " | US\$ 123  | N/A |
| Fnma Pool 888527    | " | US\$ 69   | N/A |
| Fnma Pool 888738    | " | US\$4,935 | N/A |
| Fnma Pool 888793    | " | US\$5,697 | N/A |
| Fnma Pool 900296    | " | US\$3,276 | N/A |
| Gnma Ii Pool 081150 | " | US\$ 470  | N/A |
| Gnma Ii Pool 081153 | " | US\$1,423 | N/A |
| Fed Home Ln Bank    | " | US\$5,175 | N/A |
| Federal Farm Cr Bks | " | US\$3,511 | N/A |
| Federal Home Ln Bks | " | US\$8,977 | N/A |
| Federal Home Ln Bks | " | US\$8,939 | N/A |
| Federal Home Ln Bks | " | US\$4,965 | N/A |
| Federal Home Ln Bks | " | US\$5,969 | N/A |
| Federal Home Ln Bks | " | US\$4,980 | N/A |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | Carrying Value<br>(in US\$ in Thousands) | Shares/Units<br>(in US\$ in Thousands) | Percent Owned |
|-------------------------------------|-------------------------------|-------------------------------------|--|--|---------------|
| Federal Home Ln Bks                 |                               | Available-for-sale financial assets | US\$ 19,023                              |  | N/A           |
| Federal Home Ln Bks                 |                               | "                                   | US\$ 5,134                               |  | N/A           |
| Federal Home Ln Mtg Disc Nts        |                               | "                                   | US\$ 22,342                              |  | N/A           |
| Federal Home Loan Bank              |                               | "                                   | US\$ 4,621                               |  | N/A           |
| Federal Home Loan Banks             |                               | "                                   | US\$ 21,500                              |  | N/A           |
| Federal Natl Mtg Assn               |                               | "                                   | US\$ 5,169                               |  | N/A           |
| Federal Natl Mtg Assn Medium        |                               | "                                   | US\$ 3,512                               |  | N/A           |
| Federal Natl Mtg Assn Mtn           |                               | "                                   | US\$ 2,982                               |  | N/A           |
| Federal Natl Mtg Assn Mtn           |                               | "                                   | US\$ 3,171                               |  | N/A           |
| Federal Natl Mtg Assn Mtn           |                               | "                                   | US\$ 3,398                               |  | N/A           |
| Federal Natl Mtg Assn Mtn           |                               | "                                   | US\$ 3,066                               |  | N/A           |
| Tennessee Valley Auth               |                               | "                                   | US\$ 6,068                               |  | N/A           |
| <u>Corporate bonds</u>              |                               |                                     |  |  |               |
| Abbott Labs                         |                               | Available-for-sale financial assets | US\$ 1,510                               |  | N/A           |
| American Gen Fin Corp.              |                               | "                                   | US\$ 3,139                               |  | N/A           |
| American Gen Fin Corp. Mtn          |                               | "                                   | US\$ 3,451                               |  | N/A           |
| American Gen Fin Corp. Mtn          |                               | "                                   | US\$ 1,962                               |  | N/A           |
| American Honda Fin Corp. Mtn        |                               | "                                   | US\$ 3,107                               |  | N/A           |
| Ameritech Capital Funding Co.       |                               | "                                   | US\$ 489                                 |  | N/A           |
| Amgen Inc.                          |                               | "                                   | US\$ 2,978                               |  | N/A           |
| Amgen Cap Tr I                      |                               | "                                   | US\$ 984                                 |  | N/A           |
| Atlantic Richfield Co.              |                               | "                                   | US\$ 2,216                               |  | N/A           |
| Avaya Finl Inc.                     |                               | "                                   | US\$ 2,147                               |  | N/A           |
| Beneficial Corp. Mtn Bk Entry       |                               | "                                   | US\$ 2,274                               |  | N/A           |
| Burlington Res Inc.                 |                               | "                                   | US\$ 3,653                               |  | N/A           |
| Chase Manhattan Corp. New           |                               | "                                   | US\$ 1,520                               |  | N/A           |
| Chase Manhattan Corp. New           |                               | "                                   | US\$ 2,099                               |  | N/A           |
| Chase Manhattan Corp. New           |                               | "                                   | US\$ 3,483                               |  | N/A           |
| Cit Group Hldgs Inc.                |                               | "                                   | US\$ 2,982                               |  | N/A           |
| Cit Group Inc. New                  |                               | "                                   | US\$ 2,435                               |  | N/A           |
| Consolidated Edison Inc.            |                               | "                                   | US\$ 2,990                               |  | N/A           |
| Credit Suisse First Boston Usa      |                               | "                                   | US\$ 2,229                               |  | N/A           |
| Deere John Cap Corp. Mtn Bk Ent     |                               | "                                   | US\$ 2,215                               |  | N/A           |
| Depfa Acs Bank                      |                               | "                                   | US\$ 20,402                              |  | N/A           |
| Fleet Boston Corp.                  |                               | "                                   | US\$ 2,620                               |  | N/A           |
| Gen Global Ins Hldg Corp.           |                               | "                                   | US\$ 1,914                               |  | N/A           |

|                                |   |            |     |
|--------------------------------|---|------------|-----|
| General Dynamics Corp.         | " | US\$ 2,133 | N/A |
| General Elec Cap Corp. Mtn     | " | US\$ 3,978 | N/A |
| General Elec Cap Corp. Mtn     | " | US\$ 3,047 | N/A |
| General Elec Cap Corp. Mtn     | " | US\$ 2,118 | N/A |
| General Re Corp.               | " | US\$ 3,263 | N/A |
| Genworth Finl Inc.             | " | US\$ 3,279 | N/A |
| Hancock John Global Fdg Ii Mtn | " | US\$ 5,111 | N/A |
| Hancock John Global Fdg Mtn    | " | US\$ 993   | N/A |
| Hartford Finl Svcs Group Inc.  | " | US\$ 1,336 | N/A |
| Hobos Plc Medium Term Sr Nts   | " | US\$ 3,001 | N/A |
| Heller Finl Inc.               | " | US\$ 1,950 | N/A |
| Hewlett Packard Co.            | " | US\$ 1,884 | N/A |
| Household Fin Corp.            | " | US\$ 2,950 | N/A |
| Household Fin Corp.            | " | US\$ 3,046 | N/A |
| ing Sec Life Instl Fdg         | " | US\$ 2,582 | N/A |
| International Business Machs   | " | US\$ 3,555 | N/A |
| Intl Lease Fin Corp. Mtn       | " | US\$ 2,985 | N/A |

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| Marketable Securities Type and Name             | Relationship with the Company | Financial Statement Account         | Carrying Value<br>(in US\$ in Thousands) | Shares/Units | Percent Owned |
|---|-------------------------------|-------------------------------------|--|--------------|---------------|
| JP Morgan Chase                                 |                               | Available-for-sale financial assets | US\$2,001                                |              | N/A           |
| Keycorp Mtn Book Entry                          |                               | "                                   | US\$3,053                                |              | N/A           |
| Lehman Brothers Hldgs Inc.                      |                               | "                                   | US\$1,643                                |              | N/A           |
| Lehman Brothers Hldgs Inc.                      |                               | "                                   | US\$ 490                                 |              | N/A           |
| Lehman Brothers Hldgs Inc.                      |                               | "                                   | US\$ 989                                 |              | N/A           |
| Lehman Brothers Hldgs Inc.                      |                               | "                                   | US\$3,052                                |              | N/A           |
| Lehman Brothers Hldgs Inc.                      |                               | "                                   | US\$1,060                                |              | N/A           |
| Massmutual Global Fdg Ii Mtn                    |                               | "                                   | US\$3,737                                |              | N/A           |
| Metropolitan Life Golbal Mtn                    |                               | "                                   | US\$3,366                                |              | N/A           |
| Mgic Invt Corp.                                 |                               | "                                   | US\$1,059                                |              | N/A           |
| Mizuho Fin (Cayman)                             |                               | "                                   | US\$2,148                                |              | N/A           |
| Monumental Global Fdg Ii                        |                               | "                                   | US\$1,494                                |              | N/A           |
| Monunmetal Global Fdg Ii                        |                               | "                                   | US\$2,000                                |              | N/A           |
| Mony Group Inc.                                 |                               | "                                   | US\$2,137                                |              | N/A           |
| Morgan Stanley                                  |                               | "                                   | US\$5,531                                |              | N/A           |
| Morgan Stanley                                  |                               | "                                   | US\$1,951                                |              | N/A           |
| National City Corp.                             |                               | "                                   | US\$3,488                                |              | N/A           |
| Nationwide Life Global Fdg I                    |                               | "                                   | US\$3,631                                |              | N/A           |
| Oracle Corp. / Ozark Hldg Inc.                  |                               | "                                   | US\$2,019                                |              | N/A           |
| Pepsico Inc. Mtn Book Entry                     |                               | "                                   | US\$3,607                                |              | N/A           |
| Praxair Inc.                                    |                               | "                                   | US\$3,111                                |              | N/A           |
| Premark Intl Inc.                               |                               | "                                   | US\$2,679                                |              | N/A           |
| Pricoa Global Fdg I Mtn                         |                               | "                                   | US\$3,462                                |              | N/A           |
| Principal Finl Group Australia                  |                               | "                                   | US\$1,008                                |              | N/A           |
| Protective Life Secd Trs Mtn                    |                               | "                                   | US\$3,484                                |              | N/A           |
| Sbc Communications Inc.                         |                               | "                                   | US\$3,372                                |              | N/A           |
| Sbc Communications Inc.                         |                               | "                                   | US\$ 711                                 |              | N/A           |
| Simon Ppty Group LP                             |                               | "                                   | US\$2,513                                |              | N/A           |
| Simon Ppty Group LP                             |                               | "                                   | US\$1,010                                |              | N/A           |
| Sp Powerassests Ltd. Global                     |                               | "                                   | US\$ 993                                 |              | N/A           |
| Suntrust Bk Atlanta Ga Medium                   |                               | "                                   | US\$3,482                                |              | N/A           |
| Unitedhealth Group Inc.                         |                               | "                                   | US\$1,408                                |              | N/A           |
| Wachovia Corp. New                              |                               | "                                   | US\$3,168                                |              | N/A           |
| Washington Post Co.                             |                               | "                                   | US\$3,018                                |              | N/A           |
| Wells Fargo + Co. New Med Trm                   |                               | "                                   | US\$4,413                                |              | N/A           |
| <b>Corporate issued asset-backed securities</b> |                               |                                     |  |              |               |
| Americredit Auto Rec Tr                         |                               | Available-for-sale financial assets | US\$1,001                                |              | N/A           |

|                                 |   |           |     |
|---------------------------------|---|-----------|-----|
| Americredit Automobile Rec Tr   | " | US\$ 894  | N/A |
| Americredit Automobile Receiva  | " | US\$1,176 | N/A |
| Atlantic City Ele Trns Fdglc    | " | US\$ 162  | N/A |
| Banc Amer Coml Mtg Inc.         | " | US\$4,591 | N/A |
| Banc Amer Fdg 2006 I Tr         | " | US\$3,762 | N/A |
| Bear Stearns Adjustable Rate    | " | US\$ 110  | N/A |
| Bear Stearns Arm Tr             | " | US\$3,081 | N/A |
| Bear Stearns Arm Tr             | " | US\$1,951 | N/A |
| Bear Stearns Arm Tr             | " | US\$ 247  | N/A |
| Bear Stearns Coml Mtg Secs Inc. | " | US\$3,179 | N/A |
| Bear Stearns Coml Mtg Secs Inc. | " | US\$5,099 | N/A |
| Capital One Auto Fin Tr         | " | US\$ 906  | N/A |
| Capital One Auto Fin Tr         | " | US\$3,685 | N/A |
| Capital One Multi Asset Exec    | " | US\$9,118 | N/A |
| Capital One Multi Asset Execut  | " | US\$3,991 | N/A |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | Carrying Value<br>(in US\$ in Thousands) | Shares/Units | Percent Owned |
|-------------------------------------|-------------------------------|-------------------------------------|--|--------------|---------------|
| Capital One Multi Asset Execut      |                               | Available-for-sale financial assets | US\$2,995                                |              | N/A           |
| Capital One Prime Auto Receiva      |                               | "                                   | US\$3,498                                |              | N/A           |
| Capital One Prime Auto Receiv       |                               | "                                   | US\$ 464                                 |              | N/A           |
| Cbass Tr                            |                               | "                                   | US\$1,297                                |              | N/A           |
| Cendant Rent Car Fdg Aesop LLC.     |                               | "                                   | US\$2,663                                |              | N/A           |
| Chase Mtg Fin Tr                    |                               | "                                   | US\$ 887                                 |              | N/A           |
| Chase Mtg Fin Tr                    |                               | "                                   | US\$1,745                                |              | N/A           |
| Chase Mtg Fin Tr                    |                               | "                                   | US\$2,605                                |              | N/A           |
| Chase Mtge Finance Corp.            |                               | "                                   | US\$1,678                                |              | N/A           |
| Cit Equip Coll Tr                   |                               | "                                   | US\$4,033                                |              | N/A           |
| Citicorp Mtg Secs                   |                               | "                                   | US\$ 261                                 |              | N/A           |
| Credit Suisse First Boston Mtg      |                               | "                                   | US\$1,738                                |              | N/A           |
| Credit Suisse First Boston Mtg      |                               | "                                   | US\$6,842                                |              | N/A           |
| Credit Suisse First Boston Mtg      |                               | "                                   | US\$6,704                                |              | N/A           |
| Daimlerchrysler Auto Tr             |                               | "                                   | US\$4,337                                |              | N/A           |
| Daimlerchrysler Auto Tr             |                               | "                                   | US\$1,698                                |              | N/A           |
| Deere John Owner Tr                 |                               | "                                   | US\$2,488                                |              | N/A           |
| First Franklin Mtg Ln Tr            |                               | "                                   | US\$1,659                                |              | N/A           |
| First Horizon                       |                               | "                                   | US\$ 45                                  |              | N/A           |
| First Un Natl Bk Coml Mtg Tr        |                               | "                                   | US\$2,595                                |              | N/A           |
| First Un Natl Bk Coml Mtg Tr        |                               | "                                   | US\$5,172                                |              | N/A           |
| First Un Natl Bk Coml Mtg Tr        |                               | "                                   | US\$2,186                                |              | N/A           |
| Gs Mtg Secs Corp.                   |                               | "                                   | US\$1,709                                |              | N/A           |
| Home Equity Mortgage Trust          |                               | "                                   | US\$2,659                                |              | N/A           |
| Home Equity Mtg Tr 2006 4           |                               | "                                   | US\$ 970                                 |              | N/A           |
| Hyundai Auto Receivables Tr         |                               | "                                   | US\$1,519                                |              | N/A           |
| JP Morgan Mtg Tr                    |                               | "                                   | US\$ 888                                 |              | N/A           |
| JP Morgan Mtg Tr                    |                               | "                                   | US\$ 910                                 |              | N/A           |
| JP Morgan Mtg Tr                    |                               | "                                   | US\$ 863                                 |              | N/A           |
| Lb Ubs Coml Mtg Tr                  |                               | "                                   | US\$3,884                                |              | N/A           |
| Nomura Asset Accep Corp.            |                               | "                                   | US\$1,542                                |              | N/A           |
| Residential Asset Mtg Prods         |                               | "                                   | US\$2,200                                |              | N/A           |
| Residential Fdg Mtg Secs I Inc.     |                               | "                                   | US\$1,594                                |              | N/A           |
| Residential Fdg Mtg Secs I Inc.     |                               | "                                   | US\$3,454                                |              | N/A           |
| Sequoia Mtg Tr                      |                               | "                                   | US\$ 265                                 |              | N/A           |
| Sequoia Mtg Tr                      |                               | "                                   | US\$ 340                                 |              | N/A           |
| Sequoia Mtg Tr                      |                               | "                                   | US\$ 433                                 |              | N/A           |
| Terwin Mtg Tr                       |                               | "                                   | US\$3,317                                |              | N/A           |
| Tiaa Seasoned Coml Mtg Tr           |                               | "                                   | US\$4,016                                |              | N/A           |



|                                |   |           |     |
|--------------------------------|---|-----------|-----|
| Usaa Auto Owner Tr             | " | US\$4,998 | N/A |
| Wamu Mtg                       | " | US\$3,242 | N/A |
| Wamu Mtg Pass Through Ctfs     | " | US\$ 166  | N/A |
| Washington Mut Mtg Secs Corp.  | " | US\$2,422 | N/A |
| Wells Fargo Finl Auto Owner Tr | " | US\$4,956 | N/A |
| Wells Fargo Mtg Backed Secs    | " | US\$3,816 | N/A |
| Wells Fargo Mtg Backed Secs    | " | US\$3,865 | N/A |
| Wells Fargo Mtg Backed Secs    | " | US\$3,931 | N/A |
| Wells Fargo Mtg Bkd Secs       | " | US\$3,029 | N/A |
| Wells Fargo Mtg Bkd Secs       | " | US\$1,763 | N/A |
| Whole Auto Ln Tr               | " | US\$1,828 | N/A |

Government bonds

|                         |                                     |           |     |
|-------------------------|-------------------------------------|-----------|-----|
| United States Treas Nts | Available-for-sale financial assets | US\$5,070 | N/A |
| United States Treas Nts | "                                   | US\$5,613 | N/A |

(Continued)

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December 31, 2013

| Marketable Securities     | Type and Name                  | Relationship with the Company | Financial Statement Account         | Carrying Value<br>(in US\$ in thousands) | Percent Owned |
|---------------------------|--------------------------------|-------------------------------|-------------------------------------|--|---------------|
|                           | United States Treas Nts        |                               | Available-for-sale financial assets | US\$ 42,509                              | N/A           |
|                           | United States Treas Nts        |                               | "                                   | US\$ 5,160                               | N/A           |
|                           | United States Treas Nts        |                               | "                                   | US\$ 3,359                               | N/A           |
|                           | United States Treas Nts        |                               | "                                   | US\$ 7,758                               | N/A           |
|                           | United States Treas Nts        |                               | "                                   | US\$ 25,924                              | N/A           |
|                           | United States Treas Nts        |                               | "                                   | US\$ 9,735                               | N/A           |
|                           | United States Treasury Sec     |                               | "                                   | US\$ 6,500                               | N/A           |
| <u>Money market funds</u> |                                |                               |                                     |  |               |
|                           | Alga Cash Mgmt Global Offshore |                               | Available-for-sale financial assets | US\$592,180                              | N/A           |

(Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**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 30, 2007**  
**(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Type                                | Financial | Statement | Account   | Counter-party Relationship | Nature of Shares/Units (in Thousands) | Beginning Balance |                     | Acquisition    |                     | Disposal (Note 2)   |                     |
|-------------------------------------|-----------|-----------|---|----------------------------|---------------------------------------|-------------------|---------------------|----------------|---------------------|---------------------|---------------------|
|                                     |           |           |   |                            |                                       | Amount            | Shares/Units        | Amount         | Shares/Units        | Amount              | Carrying Value      |
|                                     |           |           |   |                            | (US\$ in Thousands)                   | (in Thousands)    | (US\$ in Thousands) | (In Thousands) | (US\$ in Thousands) | (US\$ in Thousands) | (US\$ in Thousands) |
| Available-for-sale financial assets |           |           | National Investment Trust Co., Ltd.                         |                            | 22,219                                | \$3,655,939       |                     | \$             | 9,980               | \$1,650,000         | \$1,621,800         |
| "                                   |           |           | Fuh Hwa Investment Trust Co., Ltd.                          |                            | 125,122                               | 1,667,908         | 41,289              | 556,000        | 33,414              | 450,000             | 442,900             |
| "                                   |           |           | National Investment Trust Co., Ltd.                         |                            | 93,312                                | 1,314,669         | 23,884              | 340,000        | 14,180              | 200,000             | 197,500             |
| "                                   |           |           | ING Securities Investment Trust Co., Ltd.                   |                            | 175,156                               | 2,639,459         | 85,581              | 1,300,000      | 175,156             | 2,656,012           | 2,604,800           |
| "                                   |           |           | Prudential Financial Securities Investment Trust Enterprise |                            | 103,751                               | 1,516,294         |                     |                | 20,445              | 300,000             | 295,500             |
| "                                   |           |           | Uni-President Assets Management Corp.                       |                            | 65,496                                | 1,010,426         | 77,128              | 1,200,000      | 65,496              | 1,016,917           | 1,000,500           |
| "                                   |           |           | JF Asset Management (Taiwan) Ltd.                           |                            | 85,145                                | 1,299,088         | 32,507              | 500,000        | 58,603              | 900,000             | 883,300             |
| "                                   |           |           | ING Securities Investment Trust Co., Ltd.                   |                            | 63,947                                | 1,012,377         |                     |                | 9,326               | 150,000             | 145,800             |
| "                                   |           |           | Taishin Investment Trust Co., Ltd.                          |                            | 78,624                                | 806,386           |                     |                | 9,679               | 100,000             | 98,400              |

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|                                     |  |         |           |        |           |         |           |           |
|-------------------------------------|--|---------|-----------|--------|-----------|---------|-----------|-----------|
| "                                   | AIG Global Asset management Corporation (Taiwan) Ltd.              | 78,629  | 1,002,595 | 54,469 | 700,000   | 78,629  | 1,008,733 | 1,000,000 |
| "                                   | Cathay Securities Investment Trust Co., Ltd                        | 109,720 | 1,265,092 | 60,126 | 700,000   | 109,720 | 1,271,995 | 1,251,200 |
| "                                   | Allianz Global Investors Taiwan Ltd.                               | 95,553  | 1,107,206 | 17,082 | 200,000   | 58,316  | 680,000   | 668,100   |
| "                                   | JF Asset Management (Taiwan) Limited                               | 66,826  | 939,082   | 42,360 | 600,000   | 73,862  | 1,044,083 | 1,026,600 |
| "                                   | HSBC Asset Management (Taiwan) Ltd.                                | 34,093  | 506,250   |        |           | 6,677   | 100,000   | 98,000    |
| "                                   | ING Securities Investment Trust Co., Ltd                           | 76,593  | 868,076   |        |           | 76,593  | 872,639   | 857,600   |
| "                                   | Shinkong Investment Trust Co., Ltd                                 | 62,183  | 890,660   |        |           | 62,183  | 896,299   | 879,900   |
| "                                   | Taiwan International Investment management                         | 44,685  | 554,863   |        |           | 44,685  | 557,263   | 550,700   |
| "                                   | JIH SUN Securities Investment Trust Co., Ltd                       | 88,165  | 1,202,901 |        |           | 88,165  | 1,209,618 | 1,200,000 |
| "                                   | Mega Investment Trust Co., Ltd                                     | 139,333 | 1,602,947 | 94,744 | 1,100,000 | 234,077 | 2,721,023 | 2,700,000 |
| "                                   | Polaris International Securities Investment Trust Co., Ltd         | 63,273  | 701,069   | 17,862 | 200,000   | 81,135  | 909,936   | 900,000   |
| Available-for-sale financial assets | Chung Shing Bills Finance Corp. and several financial institutions |         | 998,288   |        | 1,348,634 |         |           |           |
| "                                   | "  |         | 999,779   |        | 200,280   |         |           |           |

|   |   |         |
|---|---|---------|
| " | " | 400,778 |
| " | " | 201,561 |

(Continued)

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| Financial Statement Account                | Counter-party Relationship (in Thousands)                          | Nature of Shares/Units (in Thousands) | Beginning Balance          | Acquisition                          | Disposal (Note 2)                         | Carrying Value             |
|--|--|---------------------------------------|----------------------------|--------------------------------------|---|----------------------------|
|  |  |                                       | Amount (US\$ in Thousands) | Shares/Units (in Thousands) (Note 1) | Amount (US\$ in Thousands) (In Thousands) | Amount (US\$ in Thousands) |
| Held-to-maturity financial assets          | Chung Shing Bills Finance Corp. and several financial institutions |                                       | \$3,049,919                | \$                                   | \$3,050,000                               | \$3,050,000                |
| "  | "  |                                       | 350,399                    |                                      | 350,000                                   | 350,000                    |
| "  | "  |                                       | 620,000                    |                                      | 620,000                                   | 620,000                    |
| "  | "  |                                       | 249,998                    |                                      | 250,000                                   | 250,000                    |
| Available-for-sale financial assets        | Chung Shing Bills Finance Corp.                                    |                                       | 1,046,799                  |                                      | 150,000                                   | 150,000                    |
| Held-to-maturity financial assets          | "  |                                       | 4,080,391                  |                                      | 1,460,000                                 | 1,460,000                  |
| "  | "  |                                       | 2,773,810                  |                                      | 970,000                                   | 970,000                    |
| "  | "  |                                       | 1,451,378                  |                                      | 250,000                                   | 250,000                    |
| "  | "  |                                       | 516,663                    |                                      | 136,000                                   | 136,000                    |
| Investee accounted for using equity method | Investment accounted for using equity method                       | 442,262                               | 5,741,870                  | 173,979                              | 4,927,865                                 |                            |
| "  | Investee with a controlling financial interest                     |                                       |                            | 91,703                               | 1,357,890                                 |                            |
| Investee accounted for using equity method | Subsidiary   |                                       | 733,130                    |                                      | 310,157                                   |                            |
| "  | "  |                                       | 228,005                    |                                      | 729,914                                   |                            |

|                    |      |       |      |       |      |       |      |   |
|--------------------|------|-------|------|-------|------|-------|------|---|
| Available-for-sale |      |       | US\$ | 4,378 |      |       |      |   |
| financial assets   |      |       |      |       |      |       |      |   |
| "                  |      |       | US\$ | 4,424 |      |       |      |   |
| "                  |      |       | US\$ | 4,436 | US\$ | 4,329 | US\$ | 4 |
| "                  |      |       | US\$ | 4,404 | US\$ | 4,276 | US\$ | 4 |
| "                  |      |       | US\$ | 5,757 | US\$ | 5,749 | US\$ | 5 |
| "                  |      |       | US\$ | 5,600 | US\$ | 5,587 | US\$ | 5 |
| "                  |      |       | US\$ | 6,024 | US\$ | 5,650 | US\$ | 5 |
| "                  | US\$ | 3,796 |      |       | US\$ | 3,101 | US\$ | 3 |
| "                  |      |       | US\$ | 3,935 | US\$ | 3,603 | US\$ | 3 |
| "                  |      |       | US\$ | 6,513 | US\$ | 5,270 | US\$ | 5 |
| "                  | US\$ | 3,917 |      |       | US\$ | 3,257 | US\$ | 3 |
| "                  | US\$ | 4,464 |      |       | US\$ | 3,194 | US\$ | 3 |
| "                  | US\$ | 8,535 |      |       | US\$ | 6,783 | US\$ | 6 |
| "                  | US\$ | 3,743 |      |       | US\$ | 3,511 | US\$ | 3 |
| "                  |      |       | US\$ | 3,868 | US\$ | 3,258 | US\$ | 3 |
| "                  |      |       | US\$ | 4,354 | US\$ | 3,626 | US\$ | 3 |
| "                  |      |       | US\$ | 3,250 |      |       |      |   |
| "                  | US\$ | 4,290 |      |       | US\$ | 3,170 | US\$ | 3 |

(Continued)

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| Financial<br>Securities Type | Beginning<br>Balance<br>Amount<br>(in<br>Thousands) | Acquisition<br>Amount<br>(in<br>Thousands) | Disposal (Note 2)<br>Carrying<br>Value<br>(US\$ in<br>Thousands) | Financial<br>Statement<br>Account      | Nature of<br>Relationship | Shares/Units<br>(in<br>Thousands) | Shares/Units<br>(in<br>Thousands) | Shares/Units<br>(in<br>Thousands) | Shares/Units<br>(in<br>Thousands) |
|------------------------------|---|--|--|--|---------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                              |   |  |  |  |                           |                                   |                                   |                                   |                                   |
| Mtg Assn Mtn                 | US\$  | US\$ 3,733                                 | US\$ 3,489   | Available-for-sale<br>financial assets |                           |                                   |                                   | US\$ 3,464                        | US\$                              |
| 91283                        |   | US\$ 3,486                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| 13641                        | US\$ 3,720  |  | US\$ 3,004   | "                                      |                           |                                   |                                   | US\$ 2,989                        | US\$                              |
| 25398                        | US\$ 4,224  |  | US\$ 3,606   | "                                      |                           |                                   |                                   | US\$ 3,555                        | US\$                              |
| 88249                        | US\$  | US\$ 4,822                                 | US\$ 4,402   | "                                      |                           |                                   |                                   | US\$ 4,364                        | US\$                              |
| 88388                        |   | US\$ 6,530                                 | US\$ 6,270   | "                                      |                           |                                   |                                   | US\$ 6,217                        | US\$                              |
| 88738                        |   | US\$ 5,062                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| 88793                        |   | US\$ 5,823                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| 00296                        |   | US\$ 4,336                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| n Bank                       |   | US\$ 5,035                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| Cr Bks                       |   | US\$ 3,411                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| e Ln Bks                     | US\$ 4,920  |  | US\$ 4,938   | "                                      |                           |                                   |                                   | US\$ 4,872                        | US\$                              |
| e Ln Bks                     | US\$ 2,991  |  | US\$ 3,027   | "                                      |                           |                                   |                                   | US\$ 2,987                        | US\$                              |
| e Ln Bks                     | US\$ 12,279   |  | US\$ 12,367  | "                                      |                           |                                   |                                   | US\$ 12,233                       | US\$                              |
| e Ln Bks                     |   | US\$ 5,365                                 | US\$ 5,532   | "                                      |                           |                                   |                                   | US\$ 5,365                        | US\$                              |
| e Ln Bks                     | US\$ 6,905  |  | US\$ 6,947   | "                                      |                           |                                   |                                   | US\$ 6,881                        | US\$                              |
| e Ln Bks                     | US\$ 5,898  |  | US\$ 6,032   | "                                      |                           |                                   |                                   | US\$ 5,907                        | US\$                              |
| e Ln Bks                     |   | US\$ 18,951                                |  | "                                      |                           |                                   |                                   |                                   |                                   |
| e Ln Bks                     |   | US\$ 5,098                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| e Ln Bks                     |   | US\$ 4,494                                 | US\$ 4,610   | "                                      |                           |                                   |                                   | US\$ 4,494                        | US\$                              |
| e Ln Bks                     |   | US\$ 8,983                                 | US\$ 9,000   | "                                      |                           |                                   |                                   | US\$ 8,983                        | US\$                              |
| e Ln Bks                     |   | US\$ 8,137                                 | US\$ 8,235   | "                                      |                           |                                   |                                   | US\$ 8,137                        | US\$                              |
| e Ln Bks                     | US\$ 7,506  |  | US\$ 7,500   | "                                      |                           |                                   |                                   | US\$ 7,490                        | US\$                              |
| e Ln Mtg Corp                | US\$ 5,948  |  | US\$ 5,966   | "                                      |                           |                                   |                                   | US\$ 5,930                        | US\$                              |
| e Ln Mtg Corp                | US\$ 6,440  |  | US\$ 6,453   | "                                      |                           |                                   |                                   | US\$ 6,410                        | US\$                              |
| e Ln Mtg Corp                |   | US\$ 6,000                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| e Ln Mtg Corp                |   | US\$ 3,199                                 | US\$ 3,236   | "                                      |                           |                                   |                                   | US\$ 3,199                        | US\$                              |
| e Ln Mtg Disc                |   | US\$ 21,985                                |  | "                                      |                           |                                   |                                   |                                   |                                   |
| e Loan Bank                  |   | US\$ 5,075                                 | US\$ 5,158   | "                                      |                           |                                   |                                   | US\$ 5,075                        | US\$                              |
| e Loan Bank                  |   | US\$ 5,083                                 | US\$ 4,981   | "                                      |                           |                                   |                                   | US\$ 5,083                        | US\$                              |
| e Loan Bank                  |   | US\$ 4,518                                 |  | "                                      |                           |                                   |                                   |                                   |                                   |
| e Loan Bank                  |   | US\$ 3,453                                 | US\$ 3,472   | "                                      |                           |                                   |                                   | US\$ 3,453                        | US\$                              |
| e Loan Banks                 | US\$ 8,049  | US\$ 21,356                                | US\$ 8,201   | "                                      |                           |                                   |                                   | US\$ 8,081                        | US\$                              |
| Mtg Assn                     | US\$ 4,365  |  | US\$ 4,440   | "                                      |                           |                                   |                                   | US\$ 4,364                        | US\$                              |
| Mtg Assn                     | US\$ 5,915  |  | US\$ 5,933   | "                                      |                           |                                   |                                   | US\$ 5,885                        | US\$                              |
| Mtg Assn                     | US\$ 19,766   |  | US\$ 19,844  | "                                      |                           |                                   |                                   | US\$ 19,702                       | US\$                              |



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|          |   |             |             |             |             |
|----------|---|-------------|-------------|-------------|-------------|
| Mtg Assn | " | US\$ 4,595  | US\$ 4,652  | US\$ 4,595  | US\$ 4,652  |
| Mtg Assn | " | US\$ 4,982  | US\$ 5,093  | US\$ 4,982  | US\$ 5,093  |
| Mtg Assn | " | US\$ 4,500  | US\$ 4,509  | US\$ 4,500  | US\$ 4,509  |
| Mtg Assn | " | US\$ 5,102  |             |             |             |
| Mtg Assn | " | US\$ 10,467 | US\$ 10,477 | US\$ 10,459 | US\$ 10,477 |
| Mtg Assn | " | US\$ 7,868  | US\$ 7,926  | US\$ 7,834  | US\$ 7,926  |
| Mtg Assn | " | US\$ 14,974 | US\$ 14,993 | US\$ 14,931 | US\$ 14,993 |
| Mtg Assn | " | US\$ 3,943  | US\$ 3,957  | US\$ 3,950  | US\$ 3,957  |
| Mtg Assn | " | US\$ 6,500  | US\$ 6,505  | US\$ 6,500  | US\$ 6,505  |
| Mtg Assn | " | US\$ 4,982  | US\$ 5,002  | US\$ 4,982  | US\$ 5,002  |
| Mtg Assn | " | US\$ 8,458  | US\$ 8,542  | US\$ 8,458  | US\$ 8,542  |
| Mtg Assn | " | US\$ 4,997  | US\$ 5,027  | US\$ 4,997  | US\$ 5,027  |
| Mtg Assn | " | US\$ 4,994  | US\$ 5,024  | US\$ 4,994  | US\$ 5,024  |
| Mtg Assn | " | US\$ 6,511  | US\$ 6,514  | US\$ 6,516  | US\$ 6,514  |
| Mtg Assn | " | US\$ 4,368  | US\$ 4,319  | US\$ 4,368  | US\$ 4,319  |
| Mtg Assn | " | US\$ 4,500  |             |             |             |

(Continued)

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| Bond Name          | Financial Statement Account         | Counter-party | Relationship | Beginning Balance<br>Amount<br>(in US\$ Thousands) | Acquisition<br>Amount<br>(in US\$ Thousands) | Disposal (Note 2)                     |                                    |
|--------------------|-------------------------------------|---------------|--------------|--|--|---------------------------------------|------------------------------------|
|                    |                                     |               |              |  |  | Carrying Value<br>(US\$ in Thousands) | Gain (Loss)<br>(US\$ in Thousands) |
| <b>Bonds</b>       |                                     |               |              |  |  |                                       |                                    |
| Express Co         | Available-for-sale financial assets |               |              | US\$3,452  | US\$   | US\$3,466                             | US\$3,431                          |
| Honda Fin Corp     | "                                   |               |              |  |  |                                       |                                    |
|                    |                                     |               |              | US\$3,092  | US\$ 6,220                                   | US\$6,297                             | US\$6,220                          |
| Corp               | "                                   |               |              | US\$3,365  |  | US\$3,422                             | US\$3,325                          |
| ns Cos Inc         | "                                   |               |              | US\$3,379  |  | US\$3,395                             | US\$3,340                          |
| ts P L C           | "                                   |               |              |  | US\$ 4,496                                   | US\$4,575                             | US\$4,496                          |
| Res Inc            | "                                   |               |              |  | US\$ 3,648                                   |                                       |                                    |
| hattan Corp New    | "                                   |               |              | US\$5,077  |  | US\$3,536                             | US\$3,565                          |
| hattan Corp New    | "                                   |               |              |  | US\$ 3,480                                   |                                       |                                    |
| Fdg Inc            | "                                   |               |              |  | US\$ 4,587                                   | US\$4,591                             | US\$4,587                          |
| esse First Boston  | "                                   |               |              |  |  |                                       |                                    |
|                    |                                     |               |              |  | US\$ 3,175                                   | US\$3,105                             | US\$3,175                          |
| n Cap Corp         | "                                   |               |              | US\$4,928  |  | US\$4,945                             | US\$4,899                          |
| n Cap Corp         | "                                   |               |              |  | US\$ 5,900                                   | US\$6,005                             | US\$5,900                          |
| Bank               | "                                   |               |              |  | US\$19,985                                   |                                       |                                    |
| lec Co             | "                                   |               |              | US\$3,215  |  | US\$3,217                             | US\$3,222                          |
| nvnt Bk            | "                                   |               |              | US\$3,970  |  | US\$3,973                             | US\$3,930                          |
| nvnt Bk            | "                                   |               |              | US\$6,057  |  | US\$6,317                             | US\$5,994                          |
| ome Ln Bks         | "                                   |               |              | US\$7,937  |  | US\$7,964                             | US\$7,937                          |
| ec Cap Corp Mtn    | "                                   |               |              | US\$8,759  |  | US\$8,793                             | US\$8,716                          |
| ec Cap Corp Mtn    | "                                   |               |              |  | US\$ 4,816                                   | US\$4,816                             | US\$4,816                          |
| ec Cap Corp Mtn    | "                                   |               |              | US\$8,282  | US\$ 2,993                                   | US\$8,414                             | US\$8,268                          |
| Finl Inc           | "                                   |               |              |  | US\$ 3,250                                   |                                       |                                    |
| Sachs Group Inc    | "                                   |               |              | US\$4,989  |  | US\$5,011                             | US\$4,941                          |
| Sachs Group Inc    | "                                   |               |              | US\$3,456  |  | US\$3,471                             | US\$3,453                          |
| inl Svcs Group Inc | "                                   |               |              | US\$5,037  |  | US\$5,023                             | US\$5,048                          |
| Medium Term Sr     | "                                   |               |              |  |  |                                       |                                    |
|                    |                                     |               |              | US\$3,205  |  | US\$3,215                             | US\$3,182                          |
| Fin Corp           | "                                   |               |              |  | US\$ 3,120                                   |                                       |                                    |
| Corp               | "                                   |               |              | US\$3,028  |  | US\$3,028                             | US\$3,028                          |
| Corp               | "                                   |               |              |  | US\$ 4,468                                   | US\$4,469                             | US\$4,468                          |
| Corp Mtn           | "                                   |               |              | US\$5,096  |  | US\$5,114                             | US\$5,066                          |
| al Business Machs  | "                                   |               |              |  | US\$ 3,496                                   |                                       |                                    |
| Fin Corp Mtn       | "                                   |               |              | US\$4,138  |  | US\$4,161                             | US\$4,118                          |
| n Chase + Co       | "                                   |               |              | US\$3,298  |  | US\$3,288                             | US\$3,310                          |
| a Med Term Nts Bk  | "                                   |               |              |  |  | US\$4,435                             | US\$4,393                          |

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|                      |   |           |            |           |           |      |
|----------------------|---|-----------|------------|-----------|-----------|------|
| Brothers Hldgs Inc   | " | US\$3,150 |            | US\$3,152 | US\$3,150 | US\$ |
| Brothers Hldgs Inc   | " |           | US\$ 3,150 |           |           |      |
| Willsley Corp        | " | US\$8,420 |            | US\$8,487 | US\$8,453 | US\$ |
| Global Global Fdg Ii | " |           |            |           |           |      |
|                      |   |           | US\$ 3,647 |           |           |      |
| Merica Bank Na Y     | " | US\$6,403 |            | US\$6,490 | US\$6,437 | US\$ |
| Wmch + Co Inc        | " | US\$3,453 |            | US\$3,464 | US\$3,426 | US\$ |
| Wmch + Co Inc        | " | US\$4,865 |            | US\$4,880 | US\$4,842 | US\$ |
| Man Life Global Mtn  | " | US\$3,369 |            | US\$3,452 | US\$3,361 | US\$ |
| Man Life Golbal Mtn  | " |           | US\$ 3,325 |           |           |      |
| Manley               | " | US\$2,126 | US\$ 3,337 |           |           |      |
| Map                  | " | US\$3,797 |            | US\$3,790 | US\$3,811 | US\$ |
| Elec Gas Co          | " | US\$3,682 |            | US\$3,735 | US\$3,684 | US\$ |
| Medium Term Nts      | " | US\$8,998 |            | US\$9,008 | US\$8,949 | US\$ |
| Airtouch Plc         | " | US\$4,449 |            | US\$4,403 | US\$4,477 | US\$ |
| Corp New             | " |           | US\$ 3,100 |           |           |      |
| Corp New             | " |           | US\$ 3,491 | US\$3,484 | US\$3,491 | US\$ |

(Continued)

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| Securities Type   | Financial Statement                 | Counter-party | Nature of Relationship | Beginning Balance | Acquisition      | Disposal (Note 2) |                  |
|-------------------|-------------------------------------|---------------|------------------------|-------------------|------------------|-------------------|------------------|
|                   |                                     |               |                        | Amount            | Amount           | Carrying Value    | Value            |
|                   |                                     |               |                        | (US\$ Thousands)  | (US\$ Thousands) | (US\$ Thousands)  | (US\$ Thousands) |
| to New            | Available-for-sale financial assets |               |                        | US\$2,040         | US\$ 1,534       | US\$ 3,563        | US\$ 3,582       |
| ut Bk Fa          | "                                   |               |                        | US\$3,997         |                  | US\$ 3,998        | US\$ 4,000       |
| ed asset-backed   |                                     |               |                        |                   |                  |                   |                  |
| ne Mtg Assets Tr  | Available-for-sale financial assets |               |                        |                   | US\$ 3,382       | US\$ 3,187        | US\$ 3,380       |
| utomobile Rec Tr  | "                                   |               |                        | US\$3,269         |                  | US\$ 3,196        | US\$ 3,216       |
|                   | "                                   |               |                        | US\$4,300         |                  | US\$ 4,260        | US\$ 4,350       |
| ml Mtg Inc        | "                                   |               |                        |                   | US\$ 4,591       |                   |                  |
| oml Mtg Secs Inc  | "                                   |               |                        |                   | US\$ 5,259       |                   |                  |
| receivables Asset | "                                   |               |                        | US\$3,243         |                  | US\$ 3,243        | US\$ 3,232       |
| ulti Asset Exec   | "                                   |               |                        |                   | US\$ 8,998       |                   |                  |
| ime Auto Rec      | "                                   |               |                        | US\$3,981         |                  | US\$ 3,995        | US\$ 3,999       |
| ime Auto Receiva  | "                                   |               |                        |                   | US\$ 3,500       |                   |                  |
| Asset Tr          | "                                   |               |                        | US\$8,142         |                  | US\$ 8,181        | US\$ 8,089       |
| Car Fdg Aesop Llc | "                                   |               |                        | US\$9,297         |                  | US\$ 4,493        | US\$ 4,433       |
| irst Boston Mtg   | "                                   |               |                        |                   | US\$ 7,613       |                   |                  |
| irst Boston Mtg   | "                                   |               |                        |                   | US\$ 7,637       |                   |                  |
| nk Coml Mtg Tr    | "                                   |               |                        |                   | US\$ 5,188       |                   |                  |
| to Owner Trust    | "                                   |               |                        | US\$4,324         |                  | US\$ 4,321        | US\$ 4,310       |
|                   | "                                   |               |                        | US\$4,251         |                  | US\$ 3,868        | US\$ 4,241       |
| on Motorcycle Tr  | "                                   |               |                        | US\$5,825         |                  | US\$ 3,933        | US\$ 3,904       |
| g Llc             | "                                   |               |                        | US\$5,319         |                  | US\$ 5,278        | US\$ 5,284       |
| receivables       | "                                   |               |                        |                   | US\$ 3,373       | US\$ 3,381        | US\$ 3,373       |
| Receivables Tr    | "                                   |               |                        | US\$3,928         |                  | US\$ 3,460        | US\$ 3,443       |
| Mtg Tr            | "                                   |               |                        | US\$3,493         |                  | US\$ 3,177        | US\$ 3,101       |
| Mtg Tr            | "                                   |               |                        |                   | US\$ 3,884       |                   |                  |
| Master Nt Tr      | "                                   |               |                        |                   | US\$ 4,500       | US\$ 4,449        | US\$ 4,500       |
| Cr Card Tr Ii     | "                                   |               |                        | US\$7,605         |                  | US\$ 7,552        | US\$ 7,653       |
| Mtg Invs Inc      | "                                   |               |                        | US\$5,887         |                  | US\$ 4,630        | US\$ 4,988       |
| receivables       | "                                   |               |                        | US\$3,928         |                  | US\$ 3,928        | US\$ 3,943       |
| way Owner Tr      | "                                   |               |                        | US\$3,942         |                  | US\$ 3,961        | US\$ 3,911       |
| Rate Mtg Ln Tr    | "                                   |               |                        |                   | US\$ 3,981       | US\$ 3,786        | US\$ 3,887       |
| Coml Mtg Tr       | "                                   |               |                        |                   | US\$ 4,171       |                   |                  |
| 2005 Llc          | "                                   |               |                        | US\$4,103         |                  | US\$ 3,325        | US\$ 3,338       |
| ner Tr            | "                                   |               |                        |                   | US\$ 4,999       |                   |                  |
| ner Tr            | "                                   |               |                        | US\$4,238         |                  | US\$ 4,260        | US\$ 4,246       |

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|                  |  |           |            |            |            |
|------------------|--|-----------|------------|------------|------------|
|                  | "                                      |           | US\$ 3,656 |            |            |
| ss Thru Ctfs Tr  | "                                      |           | US\$ 4,854 | US\$ 3,760 | US\$ 4,048 |
| nl Auto Owner Tr | "                                      | US\$4,986 |            | US\$ 3,535 | US\$ 3,515 |
| tg Backed Secs   | "                                      |           | US\$ 3,935 |            |            |
| tg Backed Secs   | "                                      |           | US\$ 4,008 |            |            |
| <u>onds</u>      |  |           |            |            |            |
| reas Nt          | Available-for-sale<br>financial assets |           | US\$42,302 | US\$42,891 | US\$42,302 |
| reas Nt          | "                                      |           | US\$ 5,059 | US\$ 5,007 | US\$ 5,059 |
| reas Nts         | "                                      |           | US\$60,837 | US\$34,754 | US\$34,896 |
| reas Nts         | "                                      |           | US\$ 6,837 | US\$ 7,052 | US\$ 6,837 |
| reas Nts         | "                                      |           | US\$ 8,073 | US\$ 3,037 | US\$ 3,036 |
| reas Nts         | "                                      |           | US\$33,800 | US\$34,440 | US\$33,800 |
| reas Nts         | "                                      |           | US\$25,041 | US\$25,606 | US\$25,041 |

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| Securities Type | Financial Statement                 | Counter-party Relationship | Nature of Shares/Units (in thousands) | Beginning Balance          | Acquisition                 | Disposal (Note 2)          |                                    |
|-----------------|-------------------------------------|----------------------------|---------------------------------------|----------------------------|-----------------------------|----------------------------|------------------------------------|
|                 |                                     |                            |                                       | Amount (US\$ in thousands) | Shares/Units (in thousands) | Amount (US\$ in thousands) | Carrying Value (US\$ in thousands) |
| Equities        | Available-for-sale financial assets |                            |                                       | US\$                       | US\$ 11,676                 | US\$ 6,121                 | US\$ 6,092                         |
| Equities        | "                                   |                            |                                       | US\$ 5,936                 |                             | US\$ 5,936                 | US\$ 5,944                         |
| Equities        | "                                   |                            |                                       |                            | US\$ 12,876                 | US\$ 13,318                | US\$ 12,876                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 6,957                  | US\$ 6,935                 | US\$ 6,957                         |
| Equities        | "                                   |                            |                                       |                            | US\$ 15,113                 | US\$ 10,313                | US\$ 10,056                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 10,746                 | US\$ 10,768                | US\$ 10,746                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 5,078                  | US\$ 5,170                 | US\$ 5,078                         |
| Equities        | "                                   |                            |                                       | US\$12,350                 |                             | US\$ 12,363                | US\$ 12,295                        |
| Equities        | "                                   |                            |                                       |                            | US\$109,310                 | US\$ 67,657                | US\$ 67,440                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 46,901                 | US\$ 44,003                | US\$ 43,603                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 20,692                 | US\$ 21,138                | US\$ 20,692                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 34,573                 | US\$ 34,574                | US\$ 34,573                        |
| Equities        | "                                   |                            |                                       | US\$60,929                 |                             | US\$ 60,813                | US\$ 61,165                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 19,628                 | US\$ 19,903                | US\$ 19,628                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 26,131                 | US\$ 26,501                | US\$ 26,131                        |
| Equities        | "                                   |                            |                                       |                            | US\$146,634                 | US\$139,925                | US\$138,892                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 16,788                 | US\$ 16,766                | US\$ 16,788                        |
| Equities        | "                                   |                            |                                       |                            | US\$271,758                 | US\$271,969                | US\$271,758                        |
| Equities        | "                                   |                            |                                       | US\$ 4,009                 |                             | US\$ 4,019                 | US\$ 3,996                         |
| Equities        | "                                   |                            |                                       |                            | US\$ 29,438                 | US\$ 20,089                | US\$ 19,959                        |
| Equities        | "                                   |                            |                                       | US\$56,526                 | US\$131,185                 | US\$187,636                | US\$187,804                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 8,596                  | US\$ 8,552                 | US\$ 8,596                         |
| Equities        | "                                   |                            |                                       |                            | US\$ 14,102                 | US\$ 14,203                | US\$ 14,102                        |
| Equities        | "                                   |                            |                                       | US\$ 4,834                 |                             | US\$ 4,927                 | US\$ 4,827                         |
| Equities        | "                                   |                            |                                       |                            | US\$ 30,867                 | US\$ 31,573                | US\$ 30,867                        |
| Equities        | "                                   |                            |                                       | US\$ 5,467                 |                             | US\$ 5,517                 | US\$ 5,456                         |
| Equities        | "                                   |                            |                                       |                            | US\$ 10,362                 | US\$ 10,369                | US\$ 10,362                        |
| Equities        | "                                   |                            |                                       |                            | US\$ 59,595                 | US\$ 53,577                | US\$ 53,189                        |

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.

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

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**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, 2007  
 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Transaction Date | Transaction Amount | Payment Term                 | Counter-party          | Nature of Relationships | Prior Transaction Owner | Related Counter-party Relationships | Transfer Date | Amount | Re        |
|------------------|--------------------|------------------------------|------------------------|-------------------------|-------------------------|-------------------------------------|---------------|--------|-----------|
| January 4, 2007  | \$198,000          | By the construction progress | Lead Fu Industry Corp. |                         | N/A                     | N/A                                 | N/A           | N/A    | Pu<br>bid |

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**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, 2007**  
**(Amounts in Thousands of New Taiwan Dollars)**

| Company Name | Related Party           | Nature of Relationship                         | Transaction Details    |            | Abnormal Transaction Unit Payment Price Terms (Note) | Notes/Accounts Payable or Receivable |            |
|--------------|-------------------------|--|------------------------|------------|--|--------------------------------------|------------|
|              |                         |  | Purchases/Sales Amount | % to Total |  | Ending Balance                       | % to Total |
| The Company  | TSMC-Subsidiary America | Subsidiary Sales                               | \$192,846,641          | 61         | Net 30 days after invoice date                       | \$ 26,626,880                        | 60         |
|              | GUC                     | Investee with a controlling financial interest | Sales 795,232          |            | Net 30 days after monthly closing                    | 74,003                               |            |
|              | TSMC-Subsidiary         | Subsidiary Sales                               | 155,799                |            | Net 30 days after monthly closing                    |                                      |            |
|              | WaferTech               | Direct subsidiary                              | Purchases 8,774,750    | 18         | Net 30 days after monthly closing                    | (784,280)                            | 6          |
|              | TSMC-Subsidiary         | Subsidiary Purchases                           | 5,828,541              | 12         | Net 30 days after monthly closing                    | (596,581)                            | 5          |
|              | SSMC                    | Investee accounted for using equity method     | Purchases 5,468,410    | 11         | Net 30 days after monthly closing                    | (655,029)                            | 5          |
|              | VIS                     | Investee accounted for using                   | Purchases 4,188,107    | 9          | Net 30 days after                                    | (838,584)                            | 7          |

|        | equity method   |           |           |    | monthly closing  |           |    |
|--------|---|-----------|-----------|----|--|-----------|----|
| GUC    | TSMC-South America parent company                       | Purchases | 1,766,788 | 54 | Net 30 days after invoice date/net 45 days after monthly closing | (139,402) | 16 |
| Xintec | VisEra Same president                                   | Sales     | 1,050,497 | 31 | Net 45 days after shipping                                       | 10,120    | 2  |
|        | OmniVision company of director (represented for Xintec) | Sales     | 1,813,412 | 54 | Net 45 days after shipping                                       | 431,801   | 84 |

Note: The terms of sales to related parties are not significantly different from those to third parties. For purchase transactions, prices are determined in accordance with the related contractual agreements and no other similar transaction could be compared with.

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**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, 2007  
(Amounts in Thousands of New Taiwan Dollars)**

| Company Name | Related Party         | Nature of Relationships  | Ending<br>Balance  | Turnover<br>Days<br>(Note) | Overdue<br>Amounts | Action Taken                                     | Amounts<br>Received<br>in<br>Subsequent<br>Period | Allowance for<br>Debts |
|--------------|-----------------------|--|--------------------|----------------------------|--------------------|--|---|------------------------|
| Company      | TSMC-North<br>America | Subsidiary   | \$26,725,765       | 41                         | \$8,164,297        | Accelerate<br>demand on<br>account<br>receivable | \$4,521,960                                       | \$                     |
|              | TSMC-Shanghai<br>GUC  | Subsidiary<br>Investee with a<br>controlling financial<br>interest | 151,037<br>118,749 |                            | 8,081              | Accelerate<br>demand on<br>account<br>receivable |   |                        |
|              | VisEra                | Same president   | 10,120             | 69                         | 1,075              | Accelerate<br>demand on<br>account<br>receivable |   |                        |
|              | OmniVision            | Parent company of<br>director (represented for<br>Xintec)          | 431,801            | 43                         |                    |  |   |                        |

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

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**Taiwan Semiconductor Manufacturing Company Limited**  
**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE**  
**COMPANY EXERCISES SIGNIFICANT INFLUENCE**  
**DECEMBER 31, 2007**  
**(Amounts in Thousands of New Taiwan Dollars)**

| Company       | Location                        | Main Businesses and Products   | Original Investment Amount |                   | Balance as of December 31, 2007 |                         |                         | Net Income (Loss) for the Investment |
|---------------|---------------------------------|--|----------------------------|-------------------|---------------------------------|-------------------------|-------------------------|--------------------------------------|
|               |                                 |  | December 31, 2007          | December 31, 2006 | Shares (in Thousands)           | Percentage of Ownership | Carrying Value (Note 1) |                                      |
| Global        | Tortola, British Virgin Islands | Investment activities  | \$42,327,245               | \$42,327,245      | 1                               | 100                     | \$44,204,188            | \$2,321,000                          |
| International | 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                     | 27,688,565              | 562,000                              |
|               | Hsin-Chu, Taiwan                | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 13,047,681                 | 8,119,816         | 616,240                         | 36                      | 11,024,568              | 4,321,000                            |
|               | Singapore                       | Fabrication and supply of integrated circuits  | 8,840,895                  | 8,840,895         | 463                             | 39                      | 9,092,741               | 3,552,000                            |
| Shanghai      | Shanghai, China                 | Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers | 12,180,367                 | 12,180,367        |                                 | 100                     | 8,622,715               | (952,000)                            |
| Investors     | Tortola, British Virgin Islands | Investment activities  | 10,350                     | 10,350            | 300                             | 100                     | 4,734,180               | 302,000                              |
| North         | San Jose, California, U.S.A.    | Sales and marketing of integrated circuits and semiconductor devices   | 333,718                    | 333,718           | 11,000                          | 100                     | 2,255,647               | 252,000                              |

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|          |                            |  |           |           |        |     |           |     |
|----------|----------------------------|--|-----------|-----------|--------|-----|-----------|-----|
|          | Taoyuan, Taiwan            | Wafer level chip size packaging service  | 1,357,890 |           | 91,703 | 43  | 1,501,521 | 501 |
|          | Cayman Islands             | Investing in new start-up technology companies                                       | 1,095,622 | 785,465   |        | 98  | 1,170,841 | 140 |
|          | Cayman Islands             | Investing in new start-up technology companies                                       | 973,459   | 243,545   |        | 98  | 906,536   | (4) |
|          | Hsin-Chu, Taiwan           | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568   | 386,568   | 42,572 | 37  | 823,552   | 732 |
| Alliance | Cayman Islands             | Investing in new start-up technology companies                                       | 1,019,042 | 1,418,717 |        | 99  | 467,873   | 137 |
| g        | Taipei, Taiwan             | Investment activities  | 300,000   | 300,000   |        | 36  | 173,429   | 59  |
|          | Taipei, Taiwan             | Investment activities  | 300,000   | 300,000   |        | 36  | 171,658   | 58  |
| an       | Yokohama, Japan            | Marketing activities   | 83,760    | 83,760    | 6      | 100 | 104,929   | 3   |
| ope      | Amsterdam, the Netherlands | Marketing activities   | 15,749    | 15,749    |        | 100 | 88,702    | 31  |
| rea      | Seoul, Korea               | Marketing activities   | 13,656    | 13,656    | 80     | 100 | 16,436    | 2   |

Note 1: The treasury stock is deducted from the carrying value.

Note 2: Equity in earnings/losses of investees include the effect of unrealized gross profit from affiliates.

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**Taiwan Semiconductor Manufacturing Company Limited**  
**INFORMATION OF INVESTMENT IN MAINLAND CHINA**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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

| Business and Products                                       | Total Amount of Paid-in Capital (RMB in Thousand) | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2007 (US\$ in Thousand) | Investment Flows Outflow (US\$ in Thousand) | Inflow | Accumulated Outflow of Investment from Taiwan as of December 31, 2007 (US\$ in Thousand) | Percentage of Ownership | Equity in the Earnings (Losses) (Note 2) |
|---|---|----------------------|--|---|--------|--|-------------------------|--|
| ring and integrated the order of nt to sign ons y customers | \$12,180,367 (RMB3,070,623)                       | (Note 1)             | \$12,180,367 (US\$371,000)   | \$  | \$     | \$12,180,367 (US\$371,000)   | 100%                    | \$(957,835)                              |

| Accumulated Investment in Mainland China as of December 31, 2007 (US\$ in Thousand) | Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand) | Upper Limit on Investment (US\$ in Thousand) |
|---|---|--|
| \$12,180,367 (US\$371,000)  | \$12,180,367 (US\$371,000)  | \$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 reviewed financial statements.

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**Taiwan Semiconductor Manufacturing  
Company Limited and Subsidiaries  
Consolidated Financial Statements for the  
Years Ended December 31, 2007 and 2006 and  
Independent Auditors Report**

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**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, 2007, 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 10, 2008

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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, 2007 and 2006, 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, 2007 and 2006, 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, 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.

January 10, 2008

**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 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, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Par Value)

|  | 2007               |           | 2006               |           |
|--|--------------------|-----------|--------------------|-----------|
|  | Amount             | %         | Amount             | %         |
| <b>ASSETS</b>  |                    |           |                    |           |
| <b>CURRENT ASSETS</b>  |                    |           |                    |           |
| Cash and cash equivalents (Notes 2 and 4)                                | \$ 94,986,488      | 16        | \$ 117,837,192     | 20        |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 5) | 1,632,387          |           | 1,206,854          |           |
| Available-for-sale financial assets (Notes 2, 3 and 6)                   | 66,688,368         | 12        | 67,523,858         | 12        |
| Held-to-maturity financial assets (Notes 2 and 7)                        | 11,526,946         | 2         | 8,510,823          | 2         |
| Receivables from related parties (Note 25)                               | 10,885             |           | 252,339            |           |
| Notes and accounts receivable  | 47,204,126         | 8         | 34,957,650         | 6         |
| Allowance for doubtful receivables (Notes 2 and 8)                       | (701,807)          |           | (749,888)          |           |
| Allowance for sales returns and others (Notes 2 and 8)                   | (4,089,035)        | (1)       | (2,870,802)        | (1)       |
| Other receivables from related parties (Note 25)                         | 243,620            |           | 256,863            |           |
| Other financial assets (Note 26)   | 1,515,527          |           | 2,356,542          | 1         |
| Inventories, net (Notes 2 and 9)   | 23,862,260         | 4         | 21,430,728         | 4         |
| Deferred income tax assets, net (Notes 2 and 18)                         | 5,572,334          | 1         | 8,013,992          | 1         |
| Prepaid expenses and other current assets                                | 1,370,230          |           | 1,591,017          |           |
| <b>Total current assets</b>  | <b>249,822,329</b> | <b>42</b> | <b>260,317,168</b> | <b>45</b> |
| <b>LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 10 and 11)</b>               |                    |           |                    |           |
| Investments accounted for using equity method                            | 22,517,289         | 4         | 15,000,891         | 2         |
| Available-for-sale financial assets                                      | 1,400,691          |           | 6,648,485          | 1         |
| Held-to-maturity financial assets  | 8,697,726          | 2         | 28,973,495         | 5         |
| Financial assets carried at cost   | 3,845,619          | 1         | 3,272,280          | 1         |
| <b>Total long-term investments</b>                                       | <b>36,461,325</b>  | <b>7</b>  | <b>53,895,151</b>  | <b>9</b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 26)</b>                |                    |           |                    |           |
| Cost   |                    |           |                    |           |
| Land and land improvements   | 942,197            |           | 844,644            |           |
| Buildings  | 118,640,027        | 21        | 112,595,124        | 19        |
| Machinery and equipment  | 646,419,427        | 113       | 579,825,289        | 99        |
| Office equipment   | 11,829,640         | 2         | 10,646,725         | 2         |

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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
| Leased assets                                    | 652,296               |            | 612,941               |            |
|  | 778,483,587           | 136        | 704,524,723           | 120        |
| Accumulated depreciation                         | (540,099,567)         | (94)       | (463,038,084)         | (79)       |
| Advance payments and construction in progress    | 21,868,167            | 4          | 12,607,551            | 2          |
| Net property, plant and equipment                | 260,252,187           | 46         | 254,094,190           | 43         |
| <b>INTANGIBLE ASSETS</b>                         |                       |            |                       |            |
| Goodwill (Note 2)                                | 5,987,582             | 1          | 5,984,993             | 1          |
| Deferred charges, net (Notes 2 and 13)           | 7,923,601             | 2          | 5,936,915             | 1          |
| Total intangible assets                          | 13,911,183            | 3          | 11,921,908            | 2          |
| <b>OTHER ASSETS</b>                              |                       |            |                       |            |
| Deferred income tax assets, net (Notes 2 and 18) | 7,313,283             | 1          | 5,802,142             | 1          |
| Refundable deposits                              | 2,777,769             | 1          | 1,331,245             |            |
| Others   | 327,150               |            | 123,355               |            |
| Total other assets                               | 10,418,202            | 2          | 7,256,742             | 1          |
| <b>TOTAL</b>                                     | <b>\$ 570,865,226</b> | <b>100</b> | <b>\$ 587,485,159</b> | <b>100</b> |

**LIABILITIES AND SHAREHOLDERS  
EQUITY**

**CURRENT LIABILITIES**

|  |            |   |            |   |
|--|------------|---|------------|---|
| Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)    | \$ 249,313 |   | \$ 10,864  |   |
| Notes and accounts payable   | 11,574,882 | 2 | 7,934,388  | 1 |
| Payables to related parties (Note 25)  | 1,503,376  | 1 | 1,867,728  |   |
| Income tax payable (Notes 2 and 18)  | 11,126,128 | 2 | 7,946,473  | 2 |
| Accrued expenses and other current liabilities (Notes 16 and 28)                 | 17,714,763 | 3 | 11,328,350 | 2 |
| Payables to contractors and equipment suppliers                                  | 6,256,732  | 1 | 10,768,591 | 2 |
| Current portion of bonds payable and long-term liabilities (Notes 14, 15 and 26) | 280,813    |   | 7,004,137  | 1 |
| Total current liabilities  | 48,706,007 | 9 | 46,860,531 | 8 |

**LONG-TERM LIABILITIES**

|                         |            |   |            |   |
|-------------------------|------------|---|------------|---|
| Bonds payable (Note 14) | 12,500,000 | 2 | 12,500,000 | 2 |
|-------------------------|------------|---|------------|---|

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|  |              |     |             |    |
|--|--------------|-----|-------------|----|
| Long-term bank loans (Notes 15 and 26)                       | 1,722,196    |     | 653,959     |    |
| Other long-term payables (Notes 16 and 28)                   | 9,409,978    | 2   | 8,703,267   | 2  |
| Other payables to related parties (Notes 25 and 28)          |              |     | 403,375     |    |
| Obligations under capital leases (Note 2)                    | 652,296      |     | 612,941     |    |
| <br>   |              |     |             |    |
| Total long-term liabilities                                  | 24,284,470   | 4   | 22,873,542  | 4  |
| <br>   |              |     |             |    |
| <b>OTHER LIABILITIES</b>                                     |              |     |             |    |
| Accrued pension cost (Notes 2 and 17)                        | 3,665,522    | 1   | 3,540,060   | 1  |
| Guarantee deposits (Note 28)                                 | 2,243,009    |     | 3,817,132   | 1  |
| Deferred credits (Notes 2 and 25)                            | 1,236,873    |     | 1,177,138   |    |
| Others   | 43,774       |     | 78,640      |    |
| <br>   |              |     |             |    |
| Total other liabilities                                      | 7,189,178    | 1   | 8,612,970   | 2  |
| <br>   |              |     |             |    |
| Total liabilities  | 80,179,655   | 14  | 78,347,043  | 14 |
| <br>   |              |     |             |    |
| <b>EQUITY ATTRIBUTABLE TO<br/>SHAREHOLDERS OF THE PARENT</b> |              |     |             |    |
| Capital stock \$10 par value                                 |              |     |             |    |
| Authorized: 28,050,000 thousand shares in 2007               |              |     |             |    |
| 27,050,000 thousand shares in 2006                           |              |     |             |    |
| Issued: 26,427,104 thousand shares in 2007                   |              |     |             |    |
| 25,829,688 thousand shares in 2006                           | 264,271,037  | 46  | 258,296,879 | 44 |
| <br>   |              |     |             |    |
| Capital surplus (Notes 2 and 20)                             | 53,732,682   | 9   | 54,107,498  | 9  |
| <br>   |              |     |             |    |
| Retained earnings (Note 20)                                  |              |     |             |    |
| Appropriated as legal capital reserve                        | 56,406,684   | 10  | 43,705,711  | 7  |
| Appropriated as special capital reserve                      | 629,550      |     | 640,742     |    |
| Unappropriated earnings                                      | 161,828,337  | 28  | 152,778,079 | 26 |
|  | 218,864,571  | 38  | 197,124,532 | 33 |
| <br>   |              |     |             |    |
| Others (Notes 2, 3, 22 and 24)                               |              |     |             |    |
| Cumulative translation adjustments                           | (1,072,853)  |     | (1,191,165) |    |
| Unrealized gain on financial instruments                     | 680,997      |     | 561,615     |    |
| Treasury stock: 834,096 thousand shares in 2007              |              |     |             |    |
| 33,926 thousand shares in 2006                               | (49,385,032) | (8) | (918,075)   |    |
|  | (49,776,888) | (8) | (1,547,625) |    |
| <br>   |              |     |             |    |
| Equity attributable to shareholders of the parent            | 487,091,402  | 85  | 507,981,284 | 86 |
| <br>   |              |     |             |    |
| MINORITY INTERESTS (Note 2)                                  | 3,594,169    | 1   | 1,156,832   |    |

|                           |                |     |                |     |
|---------------------------|----------------|-----|----------------|-----|
| Total shareholders equity | 490,685,571    | 86  | 509,138,116    | 86  |
| TOTAL                     | \$ 570,865,226 | 100 | \$ 587,485,159 | 100 |

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

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**Table of Contents****Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries  
CONSOLIDATED STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006****(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)**

|  | <b>2007</b>    |          | <b>2006</b>    |          |
|--|----------------|----------|----------------|----------|
|  | <b>Amount</b>  | <b>%</b> | <b>Amount</b>  | <b>%</b> |
| GROSS SALES (Notes 2 and 25)   | \$ 328,336,172 |          | \$ 322,883,499 |          |
| SALES RETURNS AND ALLOWANCES (Note 2)  | 5,705,576      |          | 5,476,328      |          |
| NET SALES  | 322,630,596    | 100      | 317,407,171    | 100      |
| COST OF SALES (Notes 19 and 25)  | 180,280,385    | 56       | 161,597,081    | 51       |
| GROSS PROFIT   | 142,350,211    | 44       | 155,810,090    | 49       |
| OPERATING EXPENSES (Notes 19 and 25)   |                |          |                |          |
| Research and development   | 17,946,322     | 5        | 16,076,432     | 5        |
| General and administrative   | 8,963,836      | 3        | 8,716,653      | 3        |
| Marketing  | 3,718,146      | 1        | 3,752,311      | 1        |
| Total operating expenses   | 30,628,304     | 9        | 28,545,396     | 9        |
| INCOME FROM OPERATIONS   | 111,721,907    | 35       | 127,264,694    | 40       |
| NON-OPERATING INCOME AND GAINS   |                |          |                |          |
| Interest income (Note 2)   | 5,651,700      | 2        | 4,542,149      | 2        |
| Equity in earnings of equity method investees, net<br>(Notes 2 and 10)                 | 2,507,869      | 1        | 2,347,153      | 1        |
| Settlement income (Note 28)  | 985,114        | 1        | 979,214        |          |
| Gain on settlement and disposal of financial<br>instruments, net (Notes 2, 5 and 24)   | 633,109        |          |                |          |
| Technical service income (Notes 25 and 28)   | 590,391        |          | 571,500        |          |
| Rental income (Note 25)  | 378,643        |          | 224,290        |          |
| Subsidy income (Note 2)  | 364,321        |          | 334,478        |          |
| Valuation gain on financial instruments, net (Notes<br>2, 5 and 24)                    | 304,578        |          |                |          |
| Gain on disposal of property, plant and equipment<br>and other assets (Notes 2 and 25) | 91,210         |          | 421,051        |          |
| Foreign exchange gain, net (Note 2)  | 80,922         |          |                |          |
| Others (Note 25)   | 345,946        |          | 285,757        |          |

|   |            |   |           |             |
|---|------------|---|-----------|-------------|
| Total non-operating income and gains                          | 11,933,803 | 4 | 9,705,592 | 3           |
| <b>NON-OPERATING EXPENSES AND LOSSES</b>                      |            |   |           |             |
| Provision for litigation loss (Note 28k)                      | 1,008,635  | 1 |           |             |
| Interest expense  | 842,242    |   | 890,602   | 1           |
| Loss on impairment of financial assets (Note 2)               | 54,208     |   | 279,690   |             |
| Loss on disposal of property, plant and equipment<br>(Note 2) | 6,190      |   | 241,397   |             |
|   |            |   |           | (Continued) |

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|                                    | <b>Income<br/>Tax</b> | <b>Income<br/>Tax</b> | <b>Income<br/>Tax</b> | <b>Income<br/>Tax</b> |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| EARNINGS PER SHARE (NT\$, Note 23) |                       |                       |                       |                       |
| Basic earnings per share           | \$ 4.59               | \$ 4.14               | \$ 5.11               | \$ 4.82               |
| Diluted earnings per share         | \$ 4.58               | \$ 4.14               | \$ 5.10               | \$ 4.81               |

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

(Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

|    | Equity Attributable to Shareholders of the Parent |                       |                              |                         |                                    | Others  |                | Total          |
|----|---|-----------------------|------------------------------|-------------------------|------------------------------------|---|----------------|----------------|
|    | Capital Surplus                                   | Legal Capital Reserve | Retained Earnings<br>Special | Unappropriated Earnings | Cumulative Translation Adjustments | Unrealized Gain (Loss) on Financial Instruments | Treasury Stock |                |
| 46 | \$ 57,117,886                                     | \$ 34,348,208         | \$ 2,226,427                 | \$ 106,196,399          | \$ 142,771,034                     | \$ (640,742)                                    | \$ (918,075)   | \$ (1,558,819) |
|    |   | 9,357,503             |                              | (9,357,503)             |                                    |   |                |                |
|    |   | (1,585,685)           | 1,585,685                    |                         |                                    |   |                |                |
|    |   |                       | (3,432,129)                  | (3,432,129)             |                                    |   |                |                |
| 29 |   |                       | (3,432,129)                  | (3,432,129)             |                                    |   |                |                |
|    |   |                       | (61,825,061)                 | (61,825,061)            |                                    |   |                |                |
| 04 |   |                       | (3,709,504)                  | (3,709,504)             |                                    |   |                |                |
|    |   |                       | (257,410)                    | (257,410)               |                                    |   |                |                |
| 04 | (3,709,504)                                       |                       | 127,009,731                  | 127,009,731             |                                    |   |                |                |
|    | 187,095   |                       |                              |                         |                                    | (550,423)                                       |                | (550,423)      |
| 96 | 429,701   |                       |                              |                         |                                    |   |                |                |

|    |            |            |          |              |              |             |         |           |             |
|----|------------|------------|----------|--------------|--------------|-------------|---------|-----------|-------------|
|    | 82,320     |            |          |              |              |             |         |           |             |
|    |            |            |          |              |              |             | 386,017 |           | 386,017     |
|    |            |            |          |              |              |             | 175,598 |           | 175,598     |
| 79 | 54,107,498 | 43,705,711 | 640,742  | 152,778,079  | 197,124,532  | (1,191,165) | 561,615 | (918,075) | (1,547,620) |
|    |            | 12,700,973 |          | (12,700,973) |              |             |         |           |             |
|    |            |            | (11,192) | 11,192       |              |             |         |           |             |
|    |            |            |          | (4,572,798)  | (4,572,798)  |             |         |           |             |
| 98 |            |            |          | (4,572,798)  | (4,572,798)  |             |         |           |             |
|    |            |            |          | (77,489,064) | (77,489,064) |             |         |           |             |
| 94 |            |            |          | (516,594)    | (516,594)    |             |         |           |             |
|    |            |            |          | (285,800)    | (285,800)    |             |         |           |             |
| 91 | (774,891)  |            |          | 109,177,093  | 109,177,093  |             |         |           |             |
|    | (28,639)   |            |          |              |              |             |         |           |             |
| 75 | 326,952    |            |          |              |              |             | 118,312 |           | 118,312     |

101,762

241,821

241,821

(122,439)

(122,439)

(48,466,957) (48,466,957)

37 \$ 53,732,682 \$ 56,406,684 \$ 629,550 \$ 161,828,337 \$ 218,864,571 \$ (1,072,853) \$ 680,997 \$ (49,385,032) \$ (49,776,880)

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

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

|   | 2007            | 2006            |
|---|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                 |                 |
| Net income attributable to shareholders of the parent                             | \$ 109,177,093  | \$ 127,009,731  |
| Net income attributable to minority interests                                     | 755,307         | 185,515         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                 |                 |
| Depreciation and amortization   | 80,005,395      | 73,715,242      |
| Amortization of premium/discount of financial assets                              | (117,159)       | 2,399           |
| Loss on impairment of financial assets  | 54,208          | 279,690         |
| Gain on disposal of available-for-sale financial assets, net                      | (610,167)       | (90,826)        |
| Equity in earnings of equity method investees, net                                | (2,507,869)     | (2,347,153)     |
| Dividends received from equity method investees                                   | 625,130         | 614,567         |
| Gain on disposal of financial assets carried at cost, net                         | (264,503)       | (16,210)        |
| Gain on disposal of property, plant and equipment and other assets, net           | (85,020)        | (179,654)       |
| Deferred income tax   | 943,797         | 121,590         |
| Loss on idle assets   |                 | 44,072          |
| Net changes in operating assets and liabilities:                                  |                 |                 |
| Decrease (increase) in:   |                 |                 |
| Financial assets and liabilities at fair value through profit or loss             | (187,084)       | 340,176         |
| Receivables from related parties  | 629,467         | 440,927         |
| Notes and accounts receivable   | (12,134,176)    | 8,124,625       |
| Allowance for doubtful receivables  | (48,126)        | (230,706)       |
| Allowance for sales returns and others  | 1,205,277       | (1,446,611)     |
| Other receivables from related parties  | 13,243          | 341,047         |
| Other financial assets  | 842,136         | (738,745)       |
| Inventories   | (2,226,106)     | (3,702,425)     |
| Prepaid expenses and other current assets   | 290,434         | (170,576)       |
| Increase (decrease) in:   |                 |                 |
| Notes and accounts payable  | 3,218,255       | (1,487,064)     |
| Payables to related parties   | (375,731)       | (572,441)       |
| Income tax payable  | 3,179,655       | 3,931,022       |
| Accrued expenses and other current liabilities                                    | 913,872         | 862,428         |
| Accrued pension cost  | 125,462         | 65,676          |
| Deferred credits  | 343,878         | (99,310)        |
| <br>Net cash provided by operating activities                                     | <br>183,766,668 | <br>204,996,986 |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                 |                 |
| Acquisitions of:  |                 |                 |
| Available-for-sale financial assets   | (87,550,197)    | (119,291,685)   |
| Held-to-maturity financial assets   |                 | (18,554,027)    |

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|   |              |              |
|---|--------------|--------------|
| Investments accounted for using equity method | (5,803,826)  | (2,613,009)  |
| Financial assets carried at cost              | (911,323)    | (511,632)    |
| Property, plant and equipment                 | (84,000,985) | (78,737,265) |
|   |              | (Continued)  |

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

|   | <b>2007</b>   | <b>2006</b>    |
|---|---------------|----------------|
| Proceeds from disposal or redemption of:                            |               |                |
| Available-for-sale financial assets                                 | \$ 94,908,666 | \$ 91,620,367  |
| Held-to-maturity financial assets                                   | 17,325,120    | 10,410,000     |
| Financial assets carried at cost                                    | 410,465       | 126,465        |
| Property, plant and equipment and other assets                      | 60,535        | 518,705        |
| Increase in deferred charges  | (3,059,155)   | (1,414,742)    |
| Increase in refundable deposits                                     | (1,434,895)   | (1,224,443)    |
| Net cash paid for acquisition of subsidiaries                       | (404,445)     |                |
| Increase in other assets  | (228,747)     | (52,086)       |
| <br>  |               |                |
| Net cash used in investing activities                               | (70,688,787)  | (119,723,352)  |
| <br>  |               |                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |               |                |
| Decrease in short-term bank loans                                   | (89,720)      | (328,500)      |
| Increase in long-term bank loans                                    | 653,000       |                |
| Repayments of:  |               |                |
| Bonds payable   | (7,000,000)   |                |
| Long-term bank loans  | (196,173)     | (5,489)        |
| Increase (decrease) in guarantee deposits                           | (1,574,131)   | 920,702        |
| Cash dividends  | (77,387,302)  | (61,742,741)   |
| Cash bonus paid to employees  | (4,572,798)   | (3,432,129)    |
| Bonus to directors and supervisors                                  | (285,800)     | (257,410)      |
| Repurchase of treasury stock  | (45,413,373)  |                |
| Proceeds from exercise of employee stock options                    | 436,827       | 575,197        |
| Increase in minority interests                                      | 19,004        | 487,017        |
| <br>  |               |                |
| Net cash used in financing activities                               | (135,410,466) | (63,783,353)   |
| <br>  |               |                |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>         | (22,332,585)  | 21,490,281     |
| <br>  |               |                |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> | (518,119)     | (136,796)      |
| <br>  |               |                |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                 | 117,837,192   | 96,483,707     |
| <br>  |               |                |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                       | \$ 94,986,488 | \$ 117,837,192 |

SUPPLEMENTAL INFORMATION

|                 |              |              |
|-----------------|--------------|--------------|
| Interest paid   | \$ 922,079   | \$ 951,450   |
| Income tax paid | \$ 7,585,727 | \$ 3,630,029 |

(Continued)



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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**  
(In Thousands of New Taiwan Dollars)

|  | 2007          | 2006          |
|--|---------------|---------------|
| INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS  |               |               |
| Acquisition of property, plant and equipment   | \$ 78,889,954 | \$ 80,675,310 |
| Decrease (increase) in payables to contractors and equipment suppliers   | 5,111,031     | (1,702,555)   |
| Increase in other long-term payables   |               | (235,490)     |
| Cash paid  | \$ 84,000,985 | \$ 78,737,265 |
| Repurchase of treasury stock   | \$ 48,466,957 | \$            |
| Increase in accrued expenses and other current liabilities   | (3,053,584)   |               |
| Cash paid  | \$ 45,413,373 | \$            |
| NONCASH FINANCING ACTIVITIES   |               |               |
| Current portion of bonds payable and long-term liabilities   | \$ 280,813    | \$ 7,004,137  |
| Current portion of other payables to related parties (under payables to related parties)                                 | \$            | \$ 688,591    |
| Current portion of other long-term payables and other liabilities (under accrued expenses and other current liabilities) | \$ 3,735,875  | \$ 617,892    |

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 the two companies from the respective acquisition dates. Fair values of assets acquired and liabilities assumed were as follows:

|  |              |
|--|--------------|
| 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. (Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**(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 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 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, 2007 and 2006, TSMC and its subsidiaries had 25,258 and 22,969 employees, respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated 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 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.

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The consolidated entities were as follows:

| Name of Investor | Name of Investee   | Percentage of Ownership |                   | Remark   |
|------------------|--|-------------------------|-------------------|--|
|                  |  | December 31, 2007       | December 31, 2006 |  |
| TSMC             | TSMC North America (TSMC-NA)   | 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%                     | 36%               | TSMC and Hsin Ruey held in aggregate a 100% ownership of Chi Cherng. As of December 31, 2007, Chi Cherng held 17,032 thousand common shares in TSMC (approximately 0.06% of issued common shares). |
|                  | Hsin Ruey Investment Co., Ltd. (Hsin Ruey)                           | 36%                     | 36%               | TSMC and Chi Cherng held in aggregate a 100% ownership of Hsin Ruey. As of December 31, 2007, Hsin Ruey held 17,064 thousand common shares in TSMC (approximately 0.06% of issued common shares).  |
|                  | 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%             |  |
|                  |  | 37%                     | 38%               |  |

|                    |  |         |         |  |
|--------------------|--|---------|---------|--|
|                    | Global Unichip Corporation<br>(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 over Xintec. |
|                    | Xintec Inc. (Xintec)   | 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% |  |

(Continued)

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| Name of Investor                        | Name of Investee                                     | Percentage of Ownership |                   | Remark   |
|---|--|-------------------------|-------------------|--|
|   |  | December 31, 2007       | December 31, 2006 |  |
| VTAF III                                | Mutual-Pak Technology Co., Ltd.<br>(Mutual-Pak)      | 51%                     | 13%               | VTAF III acquired a controlling interest in Mutual-Pak in July 2007. |
| VTAF III, VTAF II and Emerging Alliance | VentureTech Alliance Holdings, LLC<br>(VTA Holdings) | 100%                    |                   | Newly established.   |
| GUC                                     | Global Unichip Corp.-North America<br>(GUC-NA)       | 100%                    | 100%              |  |
|   | Global Unichip Japan Co., Ltd.<br>(GUC-Japan)        | 100%                    | 100%              |  |
| TSMC Partners                           | TSMC Design Technology Canada, Inc. (TSMC Canada)    | 100%                    |                   | Newly established.   |

(Concluded)

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its subsidiaries as of December 31, 2007:

TSMC-NA is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC-Japan, TSMC-Korea and TSMC-Europe are engaged mainly in marketing 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, TSMC Development, Chi Cherng and Hsin Ruey 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, and ISDF II 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 and GUC-Japan are engaged in providing products consulting in North America and Japan, 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.

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.

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### **Use of Estimates**

The preparation of consolidated 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, asset-backed commercial papers, corporate notes, and treasury bills 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 value 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**

Financial instruments 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 generally recorded in the period the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

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

### **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. Prior to January 1, 2006, the difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was amortized by the straight-line method over five years, with the amortization recorded 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 (SFAS No. 5), 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 and instead shall be tested for impairment annually. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

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

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

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.

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**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 period are capitalized. Maintenance and repairs are expensed as incurred.

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 (SFAS No. 25), 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.

Effective January 1, 2007, the Company adopted the newly released Statement of Financial Accounting Standards No. 37, Accounting for Intangible Assets. The Company had reassessed the useful lives and the amortization method of its recognized intangible assets at the effective date. 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.



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### **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 intra-period and inter-period allocations for its income tax whereby (1) a portion of current year's income tax expense is allocated to the cumulative effect of changes in accounting principles; and (2) 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.

The R.O.C. government enacted the Alternative Minimum Tax Act (the AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the tax-exempt income under various laws and statutes. TSMC and subsidiaries domiciled in the R.O.C. have considered the impact of the AMT Act in the determination of their tax liabilities.

### **Stock-based Compensation**

Employee stock option plans that are amended or have options granted on or after January 1, 2004 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.

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### **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 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.

### **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**

In March 2007, the Accounting Research and Development Foundation of the R.O.C. issued an interpretation that requires companies to record the bonus paid to directors, supervisors and employees as an expense rather than an appropriation of earnings. This interpretation should be applied to financial statements for fiscal years beginning on or after January 1, 2008.

The Accounting Research and Development Foundation of the R.O.C. also issued Statement of Financial Accounting Standards No. 39, Accounting for Share-based Payment (SFAS No. 39) in August 2007, which requires companies to record share-based payment transactions in the financial statements at fair value. SFAS No. 39 should be applied to financial statements for fiscal years beginning on or after January 1, 2008.

The Accounting Research and Development Foundation 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. Early adoption is permitted.

### **3. ACCOUNTING CHANGES**

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (SFAS No. 34) and No. 36, Financial Instruments: Disclosure and Presentation .





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The Company had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

|  | <b>Recognized<br/>as<br/>Cumulative<br/>Effect of<br/>Changes in<br/>Accounting<br/>Principles<br/>(Net of Tax)</b> | <b>Recognized<br/>as<br/>a Separate<br/>Component<br/>of<br/>Shareholders<br/>Equity</b> |
|--|---|--|
| Financial assets or liabilities at fair value through profit or loss | \$ 1,606,749  | \$   |
| Available-for-sale financial assets                                  |   | 306,531  |
|  | \$ 1,606,749  | \$ 306,531   |

The adoption of the newly released SFASs resulted in a decrease in net income before cumulative effect of changes in accounting principles of NT\$1,083,574 thousand, an increase in net income of NT\$523,175 thousand, and an increase in basic earnings per share (after income tax) of NT\$0.02, for the year ended December 31, 2006.

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such a change in accounting principle did not have a material effect on the Company's consolidated financial statements as of and for the year ended December 31, 2006.

**4. CASH AND CASH EQUIVALENTS**

|  | <b>December 31</b> |                |
|--|--------------------|----------------|
|  | <b>2007</b>        | <b>2006</b>    |
| Cash and deposits in banks                               | \$ 84,105,377      | \$ 85,496,085  |
| Repurchase agreements collateralized by government bonds | 10,067,843         | 31,241,594     |
| Asset-backed commercial papers                           | 522,116            |                |
| Corporate notes  | 291,152            | 1,026,522      |
| Treasury bills   |                    | 72,991         |
|  | \$ 94,986,488      | \$ 117,837,192 |

**Table of Contents****5. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

|                               | <b>December 31</b>  |                     |
|-------------------------------|---------------------|---------------------|
|                               | <b>2007</b>         | <b>2006</b>         |
| Trading financial assets      |                     |                     |
| Publicly-traded stocks        | \$ 1,590,188        | \$ 1,162,253        |
| Cross currency swap contracts | 35,567              | 44,601              |
| Forward exchange contracts    | 6,632               |                     |
|                               | <b>\$ 1,632,387</b> | <b>\$ 1,206,854</b> |
| Trading financial liabilities |                     |                     |
| Forward exchange contracts    | \$ 185,583          | \$ 113              |
| Cross currency swap contracts | 63,730              | 10,751              |
|                               | <b>\$ 249,313</b>   | <b>\$ 10,864</b>    |

The Company entered into derivative contracts during the years ended December 31, 2007 and 2006 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 prescribed by SFAS No. 34. Therefore, the Company did not apply hedge accounting treatment for its derivative financial contracts.

Outstanding forward contracts as of December 31, 2007 and 2006:

|                     | <b>Maturity Date</b>       | <b>Contract Amount<br/>(in Thousands)</b> |
|---------------------|----------------------------|---|
| December 31, 2007   |                            |   |
| Sell US\$/Buy NT\$  | January 2008               | US\$111,000                               |
| Sell EUR\$/Buy NT\$ | February 2008 to July 2008 | EUR 48,000                                |
| December 31, 2006   |                            |   |
| Sell JPY\$/Buy US\$ | January 2007               | JPY 38,610                                |

Outstanding cross currency swap contracts as of December 31, 2007 and 2006:

| <b>Maturity Date</b>          | <b>Contract Amount<br/>(in Thousands)</b> | <b>Range of Interest Rates Paid</b> | <b>Range of Interest Rates Received</b> |
|-------------------------------|---|-------------------------------------|---|
| December 31, 2007             |   |                                     |   |
| January 2008 to February 2008 | US\$975,000                               | 3.53%-5.60%                         | 0.02%-3.01%                             |
| December 31, 2006             |   |                                     |   |

January 2007 to February 2007

US\$820,000

3.19%-5.91%

0.90%-3.25%

For the years ended December 31, 2007 and 2006, net losses arising from derivative financial instruments were NT\$924,969 thousand (including realized settlement losses of NT\$684,122 thousand and valuation losses of NT\$240,847 thousand) and NT\$1,613,366 thousand (including realized settlement losses of NT\$1,647,103 thousand and valuation gain of NT\$33,737 thousand), respectively.

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**Table of Contents****6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

|  | <b>December 31</b>  |                     |
|--|---------------------|---------------------|
|  | <b>2007</b>         | <b>2006</b>         |
| Money market funds                       | \$ 19,212,110       | \$ 667,828          |
| Open-end mutual funds                    | 14,966,675          | 26,147,276          |
| Corporate bonds                          | 10,745,145          | 16,494,244          |
| Agency bonds                             | 8,635,796           | 12,691,612          |
| Government bonds                         | 7,767,637           | 6,921,532           |
| Corporate issued asset-backed securities | 5,357,032           | 10,541,679          |
| Publicly-traded stocks                   | 905,254             | 208,930             |
| Structured time deposits                 | 499,410             | 499,242             |
|  | 68,089,059          | 74,172,343          |
| Current portion                          | (66,688,368)        | (67,523,858)        |
|  | <b>\$ 1,400,691</b> | <b>\$ 6,648,485</b> |

In 2004, the Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. The investment portfolios included securities such as corporate bonds, agency bonds, government bonds, asset-backed securities and others. Securities acquired with maturities of less than three months from the date of purchase were classified as cash equivalents.

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

|                           | <b>Principal<br/>Amount</b> | <b>Carrying<br/>Amount</b> | <b>Interest Rate</b> | <b>Maturity Date</b> |
|---------------------------|-----------------------------|----------------------------|----------------------|----------------------|
| December 31, 2007         |                             |                            |                      |                      |
| Step-up callable deposits |                             |                            |                      |                      |
| Domestic deposits         | \$ 500,000                  | \$ 499,410                 | 1.76%                | March 2008           |
| December 31, 2006         |                             |                            |                      |                      |
| Step-up callable deposits |                             |                            |                      |                      |
| Domestic deposits         | \$ 500,000                  | \$ 499,242                 | 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**

|                 | <b>December 31</b> |               |
|-----------------|--------------------|---------------|
|                 | <b>2007</b>        | <b>2006</b>   |
| Corporate bonds | \$ 10,900,247      | \$ 13,742,541 |

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|                          |              |               |
|--------------------------|--------------|---------------|
| Government bonds         | 7,824,425    | 12,070,657    |
| Structured time deposits | 1,500,000    | 11,671,120    |
|                          | 20,224,672   | 37,484,318    |
| Current portion          | (11,526,946) | (8,510,823)   |
|                          | \$ 8,697,726 | \$ 28,973,495 |

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As of December 31, 2007 and 2006, structured time deposits categorized as held-to-maturity financial assets consisted of the following:

|                                 | <b>Principal<br/>Amount</b> | <b>Interest<br/>Receivable</b> | <b>Range of<br/>Interest Rates</b> | <b>Maturity Date</b>               |
|---------------------------------|-----------------------------|--------------------------------|------------------------------------|------------------------------------|
| December 31, 2007               |                             |                                |                                    |                                    |
| Step-up callable deposits       |                             |                                |                                    |                                    |
| Domestic deposits               | \$ 1,500,000                | \$ 5,585                       | 1.77%-1.83%                        | April 2008 to<br>October 2008      |
| December 31, 2006               |                             |                                |                                    |                                    |
| Step-up callable deposits       |                             |                                |                                    |                                    |
| Domestic deposits               | \$ 4,500,000                | \$ 13,928                      | 1.40%-1.83%                        | June 2007 to October<br>2008       |
| Callable range accrual deposits |                             |                                |                                    |                                    |
| Domestic deposits               | 3,911,520                   | 4,808                          | (See below)                        | September 2009 to<br>December 2009 |
| Foreign deposits                | 3,259,600                   | 4,998                          | (See below)                        | October 2009 to<br>January 2010    |
|                                 | \$ 11,671,120               | \$ 23,734                      |                                    |                                    |

The amount of interest earned from the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.10% and 3.45%. Based on the terms of the contracts, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the terms of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of December 31, 2007, no structured time deposit resided in banks located in foreign countries. As of December 31, 2006, the principal of the deposits that resided in banks located in Hong Kong and Singapore amounted to US\$80,000 thousand and US\$20,000 thousand, respectively.

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

Movements of the allowance for doubtful receivables were as follows:

|  | <b>Years Ended December 31</b> |             |
|--|--------------------------------|-------------|
|  | <b>2007</b>                    | <b>2006</b> |
| Balance, beginning of year                             | \$ 749,888                     | \$ 980,594  |
| Effect of inclusion of newly consolidated subsidiaries | 45                             |             |
| Provision  | 2,964                          | 54,713      |
| Write-off  | (51,090)                       | (285,419)   |
| Balance, end of year                                   | \$ 701,807                     | \$ 749,888  |

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

|  | <b>Years Ended December 31</b> |              |
|--|--------------------------------|--------------|
|  | <b>2007</b>                    | <b>2006</b>  |
| Balance, beginning of year                             | \$ 2,870,802                   | \$ 4,317,413 |
| Effect of inclusion of newly consolidated subsidiaries | 12,956                         |              |
| Provision  | 5,773,383                      | 5,382,146    |
| Write-off  | (4,568,106)                    | (6,828,757)  |
| <br>   |                                |              |
| Balance, end of year                                   | \$ 4,089,035                   | \$ 2,870,802 |

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**Table of Contents****9. INVENTORIES, NET**

|                          | <b>December 31</b>   |                      |
|--------------------------|----------------------|----------------------|
|                          | <b>2007</b>          | <b>2006</b>          |
| Finished goods           | \$ 4,321,870         | \$ 5,146,839         |
| Work in process          | 17,346,862           | 14,688,719           |
| Raw materials            | 1,862,543            | 1,673,982            |
| Supplies and spare parts | 1,261,715            | 926,120              |
|                          | 24,792,990           | 22,435,660           |
| Allowance for losses     | (930,730)            | (1,004,932)          |
|                          | <b>\$ 23,862,260</b> | <b>\$ 21,430,728</b> |

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

|  | <b>December 31</b>         |                                 |                            |                                 |
|--|----------------------------|---------------------------------|----------------------------|---------------------------------|
|  | <b>2007</b>                |                                 |                            | <b>2006</b>                     |
|  | <b>Carrying<br/>Amount</b> | <b>% of<br/>Owner-<br/>ship</b> | <b>Carrying<br/>Amount</b> | <b>% of<br/>Owner-<br/>ship</b> |
| Vanguard International Semiconductor Corporation (VIS)   | \$ 11,220,101              | 37                              | \$ 5,931,755               | 27                              |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 9,092,741                  | 39                              | 7,960,869                  | 39                              |
| VisEra Holding Company (VisEra Holding)                  | 2,204,447                  | 49                              | 1,108,267                  | 49                              |
|  | <b>\$ 22,517,289</b>       |                                 | <b>\$ 15,000,891</b>       |                                 |

In November 2006, the Company acquired 81 thousand shares in SSMC for SGD115,227 thousand from EDB Investments Pte Ltd. under a Shareholders Agreement. After the acquisition, the number of SSMC shares owned by the Company increased to 463 thousand and the Company's percentage of ownership increased from 32% to 39%.

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, 2007 and 2006, net equity in earnings of NT\$2,507,869 thousand and NT\$2,347,153 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, 2007 and 2006, fair values of publicly traded stocks in investments accounted for using equity method were NT\$15,189,200 thousand and NT\$11,027,066 thousand, respectively.



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Movements of the difference between the cost of investment and the Company's share in investees' net assets allocated to depreciable for the years ended December 31, 2007 and 2006 were as follows:

|                            | <b>Years Ended December 31</b> |             |
|----------------------------|--------------------------------|-------------|
|                            | <b>2007</b>                    | <b>2006</b> |
| Balance, beginning of year | \$ 952,159                     | \$          |
| Addition                   | 1,968,622                      | 1,010,846   |
| Reduction                  | (331,039)                      | (58,687)    |
| <br>                       |                                |             |
| Balance, end of year       | \$ 2,589,742                   | \$ 952,159  |

Movements of the aforementioned difference allocated to goodwill for the years ended December 31, 2007 and 2006 were as follows:

|                            | <b>Years Ended December 31</b> |             |
|----------------------------|--------------------------------|-------------|
|                            | <b>2007</b>                    | <b>2006</b> |
| Balance, beginning of year | \$ 213,984                     | \$          |
| Addition                   | 773,365                        | 213,984     |
| <br>                       |                                |             |
| Balance, end of year       | \$ 987,349                     | \$ 213,984  |

**11. FINANCIAL ASSETS CARRIED AT COST**

|                            | <b>December 31</b> |              |
|----------------------------|--------------------|--------------|
|                            | <b>2007</b>        | <b>2006</b>  |
| Non-publicly traded stocks | \$ 3,462,372       | \$ 2,924,350 |
| Mutual funds               | 383,247            | 347,930      |
| <br>                       |                    |              |
|                            | \$ 3,845,619       | \$ 3,272,280 |

**12. PROPERTY, PLANT AND EQUIPMENT**

|               | <b>Year Ended December 31, 2007</b> |                     |                  |                 |                         |                  |                  |
|---------------|-------------------------------------|---------------------|------------------|-----------------|-------------------------|------------------|------------------|
|               | <b>Balance,</b>                     | <b>Effect of</b>    |                  |                 |                         | <b>Effect of</b> | <b>Balance,</b>  |
|               | <b>Beginning</b>                    | <b>Inclusion</b>    |                  |                 |                         | <b>Exchange</b>  | <b>Ending of</b> |
|               | <b>of Year</b>                      | <b>of</b>           |                  |                 |                         | <b>Rate</b>      | <b>Year</b>      |
|               | <b>of Year</b>                      | <b>Newly</b>        | <b>Additions</b> | <b>Sale or</b>  | <b>Disposal</b>         | <b>Changes</b>   | <b>Year</b>      |
|               | <b>of Year</b>                      | <b>Consolidated</b> | <b>Additions</b> | <b>Disposal</b> | <b>Reclassification</b> | <b>Changes</b>   | <b>Year</b>      |
|               | <b>of Year</b>                      | <b>Subsidiaries</b> | <b>Additions</b> | <b>Disposal</b> | <b>Reclassification</b> | <b>Changes</b>   | <b>Year</b>      |
| Cost          |                                     |                     |                  |                 |                         |                  |                  |
| Land and land |                                     |                     |                  |                 |                         |                  |                  |
| improvements  | \$ 844,644                          | \$ 101,518          | \$               | \$              | \$                      | (3,965)          | \$ 942,197       |

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|   |                |              |               |              |              |              |                |
|---|----------------|--------------|---------------|--------------|--------------|--------------|----------------|
| 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        |
| Total   | 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        |
| Total   | 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 |

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|   | <b>Year Ended December 31, 2006</b>       |                      |                             |                         |  |  |
|---|---|----------------------|-----------------------------|-------------------------|--|--|
|   | <b>Balance,<br/>Beginning<br/>of Year</b> | <b>Additions</b>     | <b>Sale or<br/>Disposal</b> | <b>Reclassification</b> | <b>Effect of<br/>Exchange<br/>Rate<br/>Changes</b> | <b>Balance,<br/>Ending of<br/>Year</b> |
| Cost  |   |                      |                             |                         |  |  |
| Land and land improvements                    | \$ 851,225                                | \$                   | \$                          | \$                      | \$ (6,581)   | \$ 844,644                             |
| Buildings                                     | 105,832,028                               | 7,595,171            | (964,370)                   | 2,393                   | 129,902  | 112,595,124                            |
| Machinery and equipment                       | 510,922,064                               | 74,313,257           | (4,876,809)                 | (235,999)               | (297,224)  | 579,825,289                            |
| Office equipment                              | 9,670,611                                 | 1,236,205            | (204,200)                   | (40,550)                | (15,341)   | 10,646,725                             |
| Leased asset                                  | 597,669                                   |                      |                             |                         | 15,272   | 612,941                                |
| <b>Total</b>                                  | <b>627,873,597</b>                        | <b>\$ 83,144,633</b> | <b>\$ (6,045,379)</b>       | <b>\$ (274,156)</b>     | <b>\$ (173,972)</b>                                | <b>704,524,723</b>                     |
| Accumulated depreciation                      |   |                      |                             |                         |  |  |
| Land and land improvements                    | 206,408                                   | \$ 29,499            | \$                          | \$                      | \$ (1,530)   | 234,377                                |
| Buildings                                     | 46,560,127                                | 8,465,728            | (748,011)                   | 81                      | 10,300   | 54,288,225                             |
| Machinery and equipment                       | 344,431,001                               | 61,516,317           | (4,748,334)                 | (235,908)               | (383,489)  | 400,579,587                            |
| Office equipment                              | 6,862,502                                 | 1,190,650            | (203,404)                   | (6,423)                 | (4,022)  | 7,839,303                              |
| Leased asset                                  | 64,569                                    | 29,682               |                             |                         | 2,341  | 96,592                                 |
| <b>Total</b>                                  | <b>398,124,607</b>                        | <b>\$ 71,231,876</b> | <b>\$ (5,699,749)</b>       | <b>\$ (242,250)</b>     | <b>\$ (376,400)</b>                                | <b>463,038,084</b>                     |
| Advance payments and construction in progress | 15,074,302                                | \$ (2,469,323)       | \$                          | \$                      | \$ 2,572   | 12,607,551                             |
| <b>Net</b>                                    | <b>\$ 244,823,292</b>                     |                      |                             |                         |  | <b>\$ 254,094,190</b>                  |

**13. DEFERRED CHARGES, NET**

|  | <b>Year Ended December 31, 2007</b>           |   |                     |                  |                         |  |
|--|---|---|---------------------|------------------|-------------------------|--|
|  | <b>Balance,<br/>Beginning<br/>of<br/>Year</b> | <b>Effect of<br/>Inclusion<br/>of<br/>Newly<br/>Consolidated<br/>Subsidiaries<br/>Additions</b> | <b>Amortization</b> | <b>Disposals</b> | <b>Reclassification</b> | <b>Effect of<br/>Exchange<br/>Rate<br/>Changes</b> |
|  |   |   |                     |                  |                         |  |

|                                  |              |            |              |                |          |              |           |              |
|----------------------------------|--------------|------------|--------------|----------------|----------|--------------|-----------|--------------|
| Technology license fee           | \$ 4,132,174 | \$ 201,941 | \$ 3,515,908 | \$ (1,739,949) | \$       | \$ (296,423) | \$ 5,497  | \$ 5,819,148 |
| Software and system design costs | 1,669,781    | 2,778      | 1,275,329    | (929,920)      | (321)    | (569,648)    | 1,604     | 1,449,603    |
| Others                           | 134,960      | 29,779     | 311,827      | (124,209)      | (134)    | 296,423      | 6,204     | 654,850      |
| Total                            | \$ 5,936,915 | \$ 234,498 | \$ 5,103,064 | \$ (2,794,078) | \$ (455) | \$ (569,648) | \$ 13,305 | \$ 7,923,601 |

## Year Ended December 31, 2006

|                                  | Balance, Beginning of Year | Additions    | Amortization   | Reclassification | Effect of Exchange Rate Changes | Balance, Ending of Year |
|----------------------------------|----------------------------|--------------|----------------|------------------|---------------------------------|-------------------------|
| Technology license fee           | \$ 5,099,227               | \$ 402,001   | \$ (1,365,685) | \$               | \$ (3,369)                      | \$ 4,132,174            |
| Software and system design costs | 1,737,384                  | 1,012,741    | (1,083,083)    | 1,139            | 1,600                           | 1,669,781               |
| Others                           | 169,639                    |              | (37,113)       |                  | 2,434                           | 134,960                 |
| Total                            | \$ 7,006,250               | \$ 1,414,742 | \$ (2,485,881) | \$ 1,139         | \$ 665                          | \$ 5,936,915            |

## 14. BONDS PAYABLE

|   | December 31 2007 | December 31 2006 |
|---|------------------|------------------|
| Domestic unsecured bonds:   |                  |                  |
| Issued in December 2000 and repayable in December 2007, 5.36% interest payable annually   | \$               | \$ 4,500,000     |
| Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three installments, 2.60%, 2.75% and 3.00% interest payable annually, respectively | 12,500,000       | 15,000,000       |
|   | 12,500,000       | 19,500,000       |
| Current portion   |                  | (7,000,000)      |
|   | \$ 12,500,000    | \$ 12,500,000    |

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As of December 31, 2007, future principal repayments for the bonds payable were as follows:

| <b>Year of Repayment</b> | <b>Amount</b> |
|--------------------------|---------------|
| 2009                     | \$ 8,000,000  |
| 2012                     | 4,500,000     |
|                          | \$ 12,500,000 |

**15. LONG-TERM BANK LOANS**

|   | <b>December 31</b> |             |
|---|--------------------|-------------|
|   | <b>2007</b>        | <b>2006</b> |
| Secured loans:  |                    |             |
| US\$20,000 thousand, repayable in full in one lump sum payment in November 2010, annual interest at 5.88% in 2007 and 5.91% in 2006 | \$ 648,941         | \$ 651,871  |
| Repayable from August 2009 in 17 quarterly installments, annual interest at 2.91%-2.99%   | 630,000            |             |
| Repayable from December 2007 in 8 semi-annual installments, annual interest at 2.39%-3.20%  | 456,750            |             |
| Repayable from March 2007 in 12 quarterly installments, annual interest at 2.79%-3.16%  | 124,944            |             |
| Repayable from May 2007 in 16 quarterly installments, annual interest at 2.48%-2.85%  | 54,641             |             |
| Repayable from April 2005 in 16 quarterly installments, annual interest at 2.51%-2.85%  | 44,975             |             |
| Repayable from February 2005 in 17 quarterly installments, annual interest at 2.65%-4.53%   | 40,670             |             |
| Unsecured loans:  |                    |             |
| Science Park Administration (SPA) SOC loan, repayable from October 2003 in 20 quarterly installments, interest-free                 | 2,088              | 4,873       |
| SPA DSP loan, repayable from July 2002 in 20 quarterly installments, interest-free  |                    | 1,352       |
|   | 2,003,009          | 658,096     |
| Current portion   | (280,813)          | (4,137)     |
|   | \$ 1,722,196       | \$ 653,959  |

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 certain financial covenants. As of December 31, 2007, TSMC-Shanghai and Xintec were in compliance with all such financial covenants.

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As of December 31, 2007, future principal repayments for the long-term bank loans were as follows:

| <b>Year of Repayment</b> | <b>Amount</b> |
|--------------------------|---------------|
| 2008                     | \$ 280,813    |
| 2009                     | 302,090       |
| 2010                     | 947,453       |
| 2011                     | 220,653       |
| 2012 and thereafter      | 252,000       |
|                          | \$ 2,003,009  |

**16. OTHER LONG-TERM PAYABLES**

|   | <b>December 31</b> |              |
|---|--------------------|--------------|
|   | <b>2007</b>        | <b>2006</b>  |
| Payables for acquisition of property, plant and equipment (Note 281)              | \$ 7,908,516       | \$ 7,431,371 |
| Payables for royalties  | 5,174,644          | 1,889,788    |
|   | 13,083,160         | 9,321,159    |
| Current portion (classified under accrued expenses and other current liabilities) | (3,673,182)        | (617,892)    |
|   | \$ 9,409,978       | \$ 8,703,267 |

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

As of December 31, 2007, future payments for other long-term payables were as follows:

| <b>Year of Payment</b> | <b>Amount</b> |
|------------------------|---------------|
| 2008                   | \$ 3,673,182  |
| 2009                   | 582,027       |
| 2010                   | 497,676       |
| 2011                   | 421,759       |
| 2012 and thereafter    | 7,908,516     |
|                        | \$ 13,083,160 |

**17. PENSION PLANS**

The Labor Pension Act (the Act) became effective on July 1, 2005. The employees of TSMC, GUC, and Xintec who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act with their seniority as of July 1, 2005 retained or continue to be subject to the pension mechanism under the Labor Standards Law. Employees who joined TSMC, GUC, Xintec and Mutual-Pak after July 1, 2005 can only be subject to the pension mechanism under the Act.



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The pension mechanism under the 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 starting from July 1, 2005. Furthermore, TSMC-NA, TSMC-Shanghai, TSMC-Europe and TSMC Canada are required by local regulations to make contributions at certain percentages of the monthly basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the Company recognized pension costs of NT\$725,789 thousand and NT\$679,919 thousand for the years ended December 31, 2007 and 2006, respectively.

TSMC, GUC and Xintec have defined benefit plans under the Labor Standards Law that provide benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. TSMC, GUC and Xintec contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the pension fund monitoring committees (the Committees) and deposited in the name of the Committees in the Bank of Taiwan (originally the Central Trust of China, which was merged into 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

|                                 | <b>2007</b> | <b>2006</b> |
|---------------------------------|-------------|-------------|
| Service cost                    | \$ 184,275  | \$ 178,460  |
| Interest cost                   | 156,391     | 164,168     |
| Projected return on plan assets | (51,309)    | (49,399)    |
| Amortization                    | 35,853      | 12,096      |
| <br>                            |             |             |
| Net periodic pension cost       | \$ 325,210  | \$ 305,325  |

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2007 and 2006

|  | <b>2007</b>  | <b>2006</b>  |
|--|--------------|--------------|
| Benefit obligation                           |              |              |
| Vested benefit obligation                    | \$ 120,146   | \$ 102,920   |
| Nonvested benefit obligation                 | 3,479,132    | 3,883,344    |
| <br>   |              |              |
| Accumulated benefit obligation               | 3,599,278    | 3,986,264    |
| Additional benefits based on future salaries | 2,444,451    | 2,969,830    |
| <br>   |              |              |
| Projected benefit obligation                 | 6,043,729    | 6,956,094    |
| Fair value of plan assets                    | (2,238,997)  | (1,958,595)  |
| <br>   |              |              |
| Funded status                                | 3,804,732    | 4,997,499    |
| Unrecognized net transition obligation       | (109,873)    | (118,420)    |
| Unrecognized net loss                        | (41,995)     | (1,339,019)  |
| <br>   |              |              |
| Accrued pension cost                         | \$ 3,652,864 | \$ 3,540,060 |



|  |             |             |
|--|-------------|-------------|
| Vested benefit   | \$ 120,146  | \$ 106,645  |
| c. Actuarial assumptions at December 31, 2007 and 2006 |             |             |
| Discount rate used in determining present values       | 2.75%-3.00% | 2.25%-3.50% |
| Future salary increase rate                            | 2.00%-3.00% | 2.00%-3.00% |
| Expected rate of return on plan assets                 | 2.50%-3.00% | 2.50%       |
| d. Contributions to the Funds for the year             | \$ 209,423  | \$ 233,111  |
| e. Payments from the Funds for the year                | \$ 15,003   | \$ 7,407    |

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**Table of Contents****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:

|   | <b>Years Ended December 31</b> |               |
|---|--------------------------------|---------------|
|   | <b>2007</b>                    | <b>2006</b>   |
| Income tax expense based on income before income tax at statutory rates | \$ 30,829,431                  | \$ 34,786,278 |
| The effect of the following:  |                                |               |
| Tax-exempt income   | (7,668,367)                    | (12,281,413)  |
| Temporary and permanent differences                                     | (150,946)                      | (2,817,104)   |
| Cumulative effect of changes in accounting principles                   |                                | (82,062)      |
| Additional tax at 10% on unappropriated earnings                        | 2,710,909                      | 1,170,108     |
| Investment tax credits used   | (14,713,748)                   | (12,769,386)  |
| <br>  |                                |               |
| Income tax currently payable  | \$ 11,007,279                  | \$ 8,006,421  |

- b. Income tax expense consisted of the following:

|  |               |              |
|--|---------------|--------------|
| Income tax currently payable             | \$ 11,007,279 | \$ 8,006,421 |
| Other income tax adjustments             | (240,779)     | (328,152)    |
| Net change in deferred income tax assets |               |              |
| Investment tax credits                   | 5,122,450     | 3,914,757    |
| Temporary differences                    | (800,374)     | (2,181,558)  |
| Net operating loss carryforwards         | 841,502       | 1,412,946    |
| Valuation allowance                      | (4,220,452)   | (3,050,703)  |
| <br>                                     |               |              |
| Income tax expense                       | \$ 11,709,626 | \$ 7,773,711 |

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

|  | <b>December 31</b> |               |
|--|--------------------|---------------|
|  | <b>2007</b>        | <b>2006</b>   |
| Current deferred income tax assets, net    |                    |               |
| Investment tax credits                     | \$ 5,372,761       | \$ 7,870,800  |
| Temporary differences                      | 674,154            | 584,210       |
| Valuation allowance                        | (474,581)          | (441,018)     |
| <br>                                       |                    |               |
|  | \$ 5,572,334       | \$ 8,013,992  |
| <br>                                       |                    |               |
| Noncurrent deferred income tax assets, net |                    |               |
| Investment tax credits                     | \$ 9,885,452       | \$ 12,252,389 |
| Temporary differences                      | (2,848,052)        | (3,580,754)   |
| Net operating loss carryforwards           | 3,963,123          | 4,816,846     |
| Valuation allowance                        | (3,687,240)        | (7,686,339)   |

\$ 7,313,283      \$ 5,802,142

As of December 31, 2007, the net operating loss carryforwards were generated by WaferTech, TSMC Development and TSMC Technology and would expire on various dates through 2026.

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## d. Integrated income tax information:

The balance of the imputation credit account (ICA) of TSMC as of December 31, 2007 and 2006 was NT\$3,012,848 thousand and NT\$828,612 thousand, respectively.

The estimated creditable ratio for distribution of TSMC's earnings of 2007 and 2006 was 1.86% and 5.23%, 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.

## f. As of December 31, 2007, 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   | \$ 306,118              | \$                          | 2007        |
|                                  |                                       | 3,202,103               | 24,335                      | 2008        |
|                                  |                                       | 6,044,032               | 14,328                      | 2009        |
|                                  |                                       | 6,625,081               | 6,625,081                   | 2010        |
|                                  |                                       | 3,703,939               | 3,703,939                   | 2011        |
|                                  |                                       | \$ 19,881,273           | \$ 10,367,683               |             |
| Statute for Upgrading Industries | Research and development expenditures | \$ 1,295,681            | \$                          | 2007        |
|                                  |                                       | 2,599,538               | 6,600                       | 2008        |
|                                  |                                       | 1,546,606               | 1,078,326                   | 2009        |
|                                  |                                       | 1,887,404               | 1,887,404                   | 2010        |
|                                  |                                       | 1,749,252               | 1,749,252                   | 2011        |
|                                  |                                       | \$ 9,078,481            | \$ 4,721,582                |             |
| Statute for Upgrading Industries | Personnel training expenditures       | \$ 16,379               | \$                          | 2007        |
|                                  |                                       | 16,218                  | 20                          | 2008        |
|                                  |                                       | 46,353                  | 46,353                      | 2009        |
|                                  |                                       | 42,271                  | 42,271                      | 2010        |
|                                  |                                       | 500                     | 500                         | 2011        |
|                                  |                                       |                         |                             |             |

\$ 121,721      \$ 89,144

|                                  |   |           |           |      |
|----------------------------------|---|-----------|-----------|------|
| Statute for Upgrading Industries | Investments in important technology-based enterprises | \$ 79,804 | \$ 79,804 | 2010 |
|----------------------------------|---|-----------|-----------|------|

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

|                                 | <b>Tax-Exemption<br/>Period</b> |
|---------------------------------|---------------------------------|
| Construction of Fab 12 Module A | 2004 to 2007                    |
| Construction of Fab 14 Module A | 2006 to 2010                    |
| Construction of Fab 14 Module B | 2007 to 2011                    |
| 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 2004.

**19. LABOR COST, DEPRECIATION AND AMORTIZATION**

|                            | <b>Year Ended December 31, 2007</b> |                  |               |
|----------------------------|-------------------------------------|------------------|---------------|
|                            | <b>Classified</b>                   |                  |               |
|                            | <b>as</b>                           |                  |               |
|                            | <b>Classified as</b>                | <b>Operating</b> |               |
|                            | <b>Cost of Sales</b>                | <b>Expenses</b>  | <b>Total</b>  |
| 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  |

|                            | <b>Year Ended December 31, 2006</b> |                  |               |
|----------------------------|-------------------------------------|------------------|---------------|
|                            | <b>Classified</b>                   |                  |               |
|                            | <b>as</b>                           |                  |               |
|                            | <b>Classified as</b>                | <b>Operating</b> |               |
|                            | <b>Cost of Sales</b>                | <b>Expenses</b>  | <b>Total</b>  |
| Labor cost                 |                                     |                  |               |
| Salary                     | \$ 11,713,445                       | \$ 6,692,437     | \$ 18,405,882 |
| Labor and health insurance | 714,170                             | 404,845          | 1,119,015     |
| Pension                    | 627,731                             | 369,398          | 997,129       |
| Meal                       | 460,980                             | 173,185          | 634,165       |
| Welfare                    | 236,022                             | 211,272          | 447,294       |
| Others                     | 226,032                             | 217,045          | 443,077       |

|              |               |              |               |
|--------------|---------------|--------------|---------------|
|              | \$ 13,978,380 | \$ 8,068,182 | \$ 22,046,562 |
| Depreciation | \$ 67,685,744 | \$ 3,539,472 | \$ 71,225,216 |
| Amortization | \$ 1,436,908  | \$ 1,035,482 | \$ 2,472,390  |

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**Table of Contents****20. SHAREHOLDERS EQUITY**

As of December 31, 2007, 1,132,867 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,664,337 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.

Capital surplus consisted of the following:

|                                  | <b>December 31</b>   |                      |
|----------------------------------|----------------------|----------------------|
|                                  | <b>2007</b>          | <b>2006</b>          |
| From merger                      | \$ 24,003,546        | \$ 24,003,546        |
| Additional paid-in capital       | 19,526,492           | 19,974,431           |
| From convertible bonds           | 9,360,424            | 9,360,424            |
| From treasury stock transactions | 490,950              | 389,188              |
| From long-term investments       | 351,215              | 379,854              |
| Donations                        | 55                   | 55                   |
|                                  | <b>\$ 53,732,682</b> | <b>\$ 54,107,498</b> |

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 has equaled 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 recorded in the year of shareholder approval and given effect to in the financial statements of that year.

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





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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.

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 assets, 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 2006 and 2005 had been approved in TSMC's shareholders' meetings held on May 7, 2007 and May 16, 2006, respectively. The appropriations and dividends per share were as follows:

|                                    | <b>Appropriation of Earnings</b> |                   | <b>Dividends Per Share<br/>(NT\$)</b> |                                 |
|------------------------------------|----------------------------------|-------------------|---------------------------------------|---------------------------------|
|                                    | <b>For Fiscal</b>                | <b>For Fiscal</b> | <b>For</b>                            | <b>For</b>                      |
|                                    | <b>Year 2006</b>                 | <b>Year 2005</b>  | <b>Fiscal<br/>Year<br/>2006</b>       | <b>Fiscal<br/>Year<br/>2005</b> |
| Legal capital reserve              | \$ 12,700,973                    | \$ 9,357,503      |                                       |                                 |
| Special capital reserve            | (11,192)                         | (1,585,685)       |                                       |                                 |
| Bonus to employees in cash         | 4,572,798                        | 3,432,129         |                                       |                                 |
| Bonus to employees in stock        | 4,572,798                        | 3,432,129         |                                       |                                 |
| Cash dividends to shareholders     | 77,489,064                       | 61,825,061        | \$ 3.00                               | \$ 2.50                         |
| Stock dividends to shareholders    | 516,594                          | 3,709,504         | 0.02                                  | 0.15                            |
| Bonus to directors and supervisors | 285,800                          | 257,410           |                                       |                                 |
|                                    | \$ 100,126,835                   | \$ 80,428,051     |                                       |                                 |

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

The amounts of the appropriations of earnings for 2006 and 2005 were consistent with the resolutions of the meetings of the Board of Directors held on February 6, 2007 and February 14, 2006, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2006 and 2005, the basic earnings per share (after income tax) for the years ended December 31, 2006 and 2005 shown in the respective financial statements would have decreased from NT\$4.93 to NT\$4.56 and NT\$3.79 to NT\$3.50, respectively. The shares distributed as a bonus to employees represented 1.77% and 1.39% of TSMC's total outstanding common shares as of December 31, 2006 and 2005, respectively.

As of January 10, 2008, the Board of Directors had not resolved the appropriation for earnings of 2007.

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.

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**Table of Contents****21. STOCK-BASED COMPENSATION PLANS**

TSMC's Employee Stock Option Plans, under the TSMC 2004 Plan, TSMC 2003 Plan, and TSMC 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 TSMC 2004 Plan, TSMC 2003 Plan and TSMC 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 TSMC or any of its domestic or foreign subsidiaries, in which TSMC'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 TSMC'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 cancelled had expired as of December 31, 2007.

Information about TSMC's outstanding options for the years ended December 31, 2007 and 2006 was as follows:

|                              | <b>Number of<br/>Options<br/>(in<br/>Thousands)</b> | <b>Weighted-<br/>average<br/>Exercise<br/>Price<br/>(NT\$)</b> |
|------------------------------|---|--|
| 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 cancelled            | (1,045)   | 45.9   |
| Balance, end of year         | 41,875  | 37.4   |
| Year ended December 31, 2006 |   |  |
| Balance, beginning of year   | 67,758  | \$ 39.4  |
| Options granted              | 2,758   | 40.1   |
| Options exercised            | (14,550)  | 40.1   |
| Options cancelled            | (3,152)   | 43.7   |
| Balance, end of year         | 52,814  | 39.6   |

The number 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.

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As of December 31, 2007, information about TSMC's 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\$) |
| \$25.9 - \$36.4                | 28,527                           | 5.16  | \$33.1                                 | 28,528                           | \$33.1                                 |
| 38.9 - 51.3                    | 13,348                           | 6.89  | 46.6                                   | 6,838                            | 46.4                                   |
|                                | 41,875                           |   | 37.4                                   | 35,366                           | 35.6                                   |

GUC's Employee Stock Option Plans, consisting of the GUC 2003 Plan and GUC 2002 Plan, were approved by its Board of Directors on January 23, 2003 and July 1, 2002, respectively. The maximum number of options authorized to be granted under the GUC 2003 Plan and GUC 2002 Plan was 7,535 and 5,000, respectively, with each option eligible to subscribe for one thousand common shares when exercisable. The options may be granted to qualified employees of GUC. The options of all the plans are valid for six years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Moreover, the GUC 2007 Plan, GUC 2006 Plan, and GUC 2004 Plan were approved by the SFB on November 28, 2007, July 3, 2006, and August 16, 2004 to grant a maximum of 1,999 options, 3,665 options and 2,500 options, respectively, with each option eligible to subscribe for one thousand common shares when exercisable. The options may be granted to qualified employees of GUC or any of its subsidiaries. Except for the options of the GUC 2006 Plan which are valid until August 15, 2011, the options of the other two GUC option Plans are valid for six years. Options of all three Plans are exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about GUC's outstanding options for the years ended December 31, 2007 and 2006 was as follows:

|                              | Number of Options | Weighted-average Exercise Prices (NT\$) |
|------------------------------|-------------------|---|
| Year ended December 31, 2007 |                   |   |
| Balance, beginning of year   | 7,342             | \$ 14.0                                 |
| Options granted              | 2,053             | 183.6                                   |
| Options exercised            | (1,563)           | 10.2                                    |
| Options cancelled            | (234)             | 13.5                                    |
| Balance, end of year         | 7,598             | 60.3                                    |

Year ended December 31, 2006

|                            |         |         |
|----------------------------|---------|---------|
| Balance, beginning of year | 7,132   | \$ 10.7 |
| Options granted            | 3,689   | 19.5    |
| Options exercised          | (2,862) | 10.5    |
| Options cancelled          | (617)   | 12.1    |
| Balance, end of year       | 7,342   | 14.0    |

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The number of outstanding options and exercise prices have been adjusted to reflect the distribution of earnings by GUC in accordance with the plans. The options granted shown above included options resulting from the aforementioned adjustment and options newly granted in accordance with the plans.

As of December 31, 2007, information about GUC's outstanding and exercisable options was as follows:

| Range of<br>Exercise<br>Price (NT\$) | Number<br>of<br>Options | Options Outstanding  |   | Options Exercisable     |   |
|--------------------------------------|-------------------------|--|---|-------------------------|---|
|                                      |                         | Weighted-<br>average<br>Remaining<br>Contractual<br>Life (Years) | Weighted-<br>average<br>Exercise<br>Price<br>(NT\$) | Number<br>of<br>Options | Weighted-<br>average<br>Exercise<br>Price<br>(NT\$) |
| \$9.6 - \$10.5                       | 2,247                   | 0.58 - 3.75  | \$ 10.0   | 850                     | \$10.2  |
| 17.7                                 | 3,418                   | 3.67   | 17.7  |                         |   |
| 194.0                                | 1,933                   | 6.00   | 194.0   |                         |   |
|                                      | 7,598                   |  | 60.3  | 850                     | 10.2  |

Xintec's Employee Stock Option Plans, consisting of the Xintec 2007 Plan and Xintec 2006 Plan, were approved by the SFB on June 26, 2007 and July 3, 2006, respectively. The maximum number of options authorized to be granted under the Xintec 2007 Plan and Xintec 2006 Plan was 6,000 thousand each, with each option eligible to subscribe for one common share of Xintec when exercisable. The options may be granted to qualified employees of Xintec or any of its subsidiaries. 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.

Information about Xintec's outstanding options for the year ended December 31, 2007 was as follows:

|                              | Number of<br>Options<br>(in<br>Thousands) | Weighted-<br>average<br>Exercise<br>Price<br>(NT\$) |
|------------------------------|---|---|
| Year ended December 31, 2007 |   |   |
| Balance, beginning of year   | 4,968                                     | \$ 13.0   |
| Options granted              | 5,555                                     | 17.3  |
| Options cancelled            | (881)                                     | 14.1  |
| Balance, end of year         | 9,642                                     | 15.1  |

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

As of December 31, 2007, information about Xintec's outstanding and exercisable options was as follows:

| Range of<br>Exercise<br>Price (NT\$) | Number of<br>Options<br>(in<br>Thousands) | Options Outstanding                      | Weighted-<br>average        | Weighted-<br>average                         | Options<br>Exercisable      | Weighted-<br>average |
|--------------------------------------|---|--|-----------------------------|--|-----------------------------|----------------------|
|                                      |   | Remaining<br>Contractual<br>Life (Years) | Exercise<br>Price<br>(NT\$) | Number<br>of<br>Options<br>(in<br>Thousands) | Exercise<br>Price<br>(NT\$) |                      |
| \$12.7 \$20.0                        | 9,642                                     | 8.75-9.96                                | \$15.1                      |  | \$                          |                      |

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No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2007 and 2006. Had the Company used the fair value based method to evaluate the options granted after January 1, 2004 using the Black-Scholes model, the assumptions and pro forma results of the Company would have been as follows:

|  |                         | <b>2007</b>   | <b>2006</b>   |
|--|-------------------------|---------------|---------------|
| Assumptions:   |                         |               |               |
| TSMC   | 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       |
| GUC  | Expected dividend yield | 0.00% 0.60%   |               |
|  | Expected volatility     | 22.65% 45.47% | 22.65% 41.74% |
|  | Risk free interest rate | 2.12% 2.56%   | 2.23% 2.56%   |
|  | Expected life           | 3 6 years     | 3 6 years     |
| Xintec   | Expected dividend yield | 0.80%         |               |
|  | Expected volatility     | 31.79% 47.42% |               |
|  | Risk free interest rate | 1.88% 2.45%   |               |
|  | Expected life           | 3 years       |               |
| Net income attributable to shareholders of the parent: |                         |               |               |
| As reported  |                         | \$109,177,093 | \$127,009,731 |
| Pro forma  |                         | 109,089,016   | 126,887,247   |
| Earnings per share (EPS) after income tax (NT\$):      |                         |               |               |
| Basic EPS as reported                                  |                         | \$4.14        | \$4.82        |
| Pro forma basic EPS                                    |                         | 4.14          | 4.81          |
| Diluted EPS as reported                                |                         | 4.14          | 4.81          |
| Pro forma diluted EPS                                  |                         | 4.14          | 4.81          |

**22. TREASURY STOCK**

(Shares in Thousands)

|   | <b>Beginning<br/>Shares</b> | <b>Addition</b> | <b>Stock<br/>Dividends</b> | <b>Ending<br/>Shares</b> |
|---|-----------------------------|-----------------|----------------------------|--------------------------|
| 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                  |
| Year ended December 31, 2006              |                             |                 |                            |                          |
| Parent company stock held by subsidiaries | 32,938                      |                 | 988                        | 33,926                   |

As of December 31, 2007 and 2006, the book value of the treasury stock was NT\$49,385,032 thousand and NT\$918,075 thousand, respectively; the market value was NT\$51,713,947 thousand and NT\$2,290,026 thousand, respectively. 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.

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TSMC held a meeting of the Board of Directors and approved a share buyback plan to repurchase TSMC's common shares up to 800,000 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. As of December 31, 2007, TSMC had repurchased 800,000 thousand common shares for a total cost of NT\$48,466,957 thousand. All the treasury stock repurchased will be retired in 2008.

**23. EARNINGS PER SHARE**

|  | <b>Years Ended December 31</b>   |                                 |                                  |                                 |
|--|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|  | <b>2007</b>                      |                                 | <b>2006</b>                      |                                 |
|  | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
| <b>Basic EPS (NT\$)</b>  |                                  |                                 |                                  |                                 |
| Income before cumulative effect of changes in accounting principles attributable to shareholders of the parent | \$ 4.59                          | \$ 4.14                         | \$ 5.05                          | \$ 4.76                         |
| Cumulative effect of changes in accounting principles attributable to shareholders of the parent               |                                  |                                 | 0.06                             | 0.06                            |
| Income attributable to shareholders of the parent  | \$ 4.59                          | \$ 4.14                         | \$ 5.11                          | \$ 4.82                         |
| <b>Diluted EPS (NT\$)</b>  |                                  |                                 |                                  |                                 |
| Income before cumulative effect of changes in accounting principles attributable to shareholders of the parent | \$ 4.58                          | \$ 4.14                         | \$ 5.04                          | \$ 4.75                         |
| Cumulative effect of changes in accounting principles attributable to shareholders of the parent               |                                  |                                 | 0.06                             | 0.06                            |
| Income attributable to shareholders of the parent  | \$ 4.58                          | \$ 4.14                         | \$ 5.10                          | \$ 4.81                         |

Consolidated EPS is computed as follows:

|   | <b>Amounts (Numerator)</b>       |                                 | <b>Number of<br/>Shares<br/>(Denominator)<br/>(in<br/>Thousands)</b> | <b>EPS (NT\$)</b>                |                                 |
|---|----------------------------------|---------------------------------|--|----------------------------------|---------------------------------|
|   | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |  | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
| Year ended December 31, 2007                      |                                  |                                 |  |                                  |                                 |
| <b>Basic EPS</b>                                  |                                  |                                 |  |                                  |                                 |
| Income attributable to shareholders of the parent | \$ 120,890,678                   | \$ 109,177,093                  | 26,346,582   | \$ 4.59                          | \$ 4.14                         |
| Effect of dilutive potential common stock         |                                  |                                 |  |                                  |                                 |
| stock options                                     |                                  |                                 | 21,668   |                                  |                                 |

Diluted EPS

|  |                |                |            |         |         |
|--|----------------|----------------|------------|---------|---------|
| Income attributable to shareholders<br>of the parent<br>(including effect of dilutive<br>potential common stock) | \$ 120,890,678 | \$ 109,177,093 | 26,368,250 | \$ 4.58 | \$ 4.14 |
|--|----------------|----------------|------------|---------|---------|

Year ended December 31, 2006

|   |                |                |            |         |         |
|---|----------------|----------------|------------|---------|---------|
| Basic EPS<br>Income attributable to shareholders<br>of the parent | \$ 134,698,725 | \$ 127,009,731 | 26,374,757 | \$ 5.11 | \$ 4.82 |
|---|----------------|----------------|------------|---------|---------|

|   |  |  |        |  |  |
|---|--|--|--------|--|--|
| Effect of dilutive potential<br>common stock    stock options |  |  | 24,101 |  |  |
|---|--|--|--------|--|--|

|   |                |                |            |         |         |
|---|----------------|----------------|------------|---------|---------|
| Diluted EPS<br>Income attributable to shareholders<br>of the parent<br>(including effect of dilutive<br>potential common stock) | \$ 134,698,725 | \$ 127,009,731 | 26,398,858 | \$ 5.10 | \$ 4.81 |
|---|----------------|----------------|------------|---------|---------|

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**Table of Contents****24. DISCLOSURES FOR FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

|  | December 31        |              |                    |              |
|--|--------------------|--------------|--------------------|--------------|
|  | 2007               |              | 2006               |              |
|  | Carrying<br>Amount | Fair Value   | Carrying<br>Amount | Fair Value   |
| <b>Assets</b>  |                    |              |                    |              |
| Financial assets at fair value through profit or loss      | \$ 1,632,387       | \$ 1,632,387 | \$ 1,206,854       | \$ 1,206,854 |
| Available-for-sale financial assets                        | 68,089,059         | 68,089,059   | 74,172,343         | 74,172,343   |
| Held-to-maturity financial assets                          | 20,224,672         | 20,192,188   | 37,484,318         | 37,375,517   |
| <b>Liabilities</b>   |                    |              |                    |              |
| Financial liabilities at fair value through profit or loss | 249,313            | 249,313      | 10,864             | 10,864       |
| Bonds payable (including current portion)                  | 12,500,000         | 12,669,987   | 19,500,000         | 19,817,149   |
| Long-term bank loans (including current portion)           | 2,003,009          | 2,003,009    | 658,096            | 658,096      |
| Other long-term payables (including current portion)       | 13,083,160         | 13,083,160   | 10,413,125         | 10,413,125   |
| Obligations under capital leases                           | 652,296            | 652,296      | 612,941            | 612,941      |

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, payables, and payables to contractors and equipment suppliers. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Fair values of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity financial assets other than derivatives and structured time deposits were based on their quoted market prices.
- 3) Fair values of derivatives and structured time deposits were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Fair value of bonds payable was based on their quoted market price.
- 5) Fair values of long-term bank loans, other long-term payables and obligations under capital leases were based on the present value of expected cash flows, which approximate their carrying amounts.

c. The changes in fair value during the years ended December 31, 2007 and 2006 of financial assets/liabilities at fair value through profit or loss, including derivatives estimated using valuation techniques and publicly-traded stocks, were recognized as losses of NT\$240,847 thousand and gains of NT\$33,737 thousand, respectively.

- d. As of December 31, 2007 and 2006, financial assets exposed to fair value interest rate risk were NT\$87,450,676 thousand and NT\$111,492,332 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$249,313 thousand and NT\$10,864 thousand, respectively. As of December 31, 2006, financial assets exposed to cash flow interest rate risk were NT\$7,171,120 thousand.

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- e. Movements of the unrealized gain/loss on financial instruments for the years ended December 31, 2007 and 2006 were as follows:

|  | <b>Year Ended December 31, 2007</b>   |   |              |
|--|---|---|--------------|
|  | <b>Valuation<br/>Gain on<br/>Available-<br/>for-sale<br/>Financial<br/>Assets</b> | <b>Equity in<br/>Valuation<br/>Gain on<br/>Available-<br/>for-sale<br/>Financial<br/>Assets Held<br/>by<br/>Investees</b> | <b>Total</b> |
| Balance, beginning of year                                   | \$ 386,017  | \$ 175,598  | \$ 561,615   |
| Recognized directly in shareholders' equity                  | 849,823   | (122,439)   | 727,384      |
| Removed from shareholders' equity and recognized in earnings | (608,002)   |   | (608,002)    |
| Balance, end of year   | \$ 627,838  | \$ 53,159   | \$ 680,997   |

|  | <b>Year Ended December 31, 2006</b>   |   |              |
|--|---|---|--------------|
|  | <b>Valuation<br/>Gain on<br/>Available-<br/>for-sale<br/>Financial<br/>Assets</b> | <b>Equity in<br/>Valuation<br/>Gain on<br/>Available-<br/>for-sale<br/>Financial<br/>Assets Held<br/>by<br/>Investees</b> | <b>Total</b> |
| Balance, beginning of year                                   | \$ 302,376  | \$  | \$ 302,376   |
| Recognized directly in shareholders' equity                  | 174,212   | 175,598   | 349,810      |
| Removed from shareholders' equity and recognized in earnings | (90,571)  |   | (90,571)     |
| Balance, end of year   | \$ 386,017  | \$ 175,598  | \$ 561,615   |

- f. Information about financial risk

1) Market risk. The publicly-traded stocks categorized as financial assets at fair value through profit or loss are exposed to market price fluctuations. 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 would result in changes in fair value of these debt securities.

- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes that the Company's exposure to default by those parties is low.

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- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments, bonds payable and bank loans. 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.

**25. RELATED PARTY TRANSACTIONS**

Except as disclosed in the consolidated financial statements and other notes, the following is a summary of significant related party transactions:

- a. Philips, one of the major shareholders of TSMC, which has become a non-related party since March, 2007.
- b. Investees of TSMC
- VIS (accounted for using equity method)  
SSMC (accounted for using equity method)
- c. VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using equity method by TSMC
- d. Others: Related parties over which the Company exercises significant influence but with which the Company had no material transactions

|                           | <b>2007</b>   |          | <b>2006</b>   |          |
|---------------------------|---------------|----------|---------------|----------|
|                           | <b>Amount</b> | <b>%</b> | <b>Amount</b> | <b>%</b> |
| For the year              |               |          |               |          |
| Sales                     |               |          |               |          |
| VisEra                    | \$ 739,879    |          | \$ 99,367     |          |
| VIS                       | 59,163        |          | 14,454        |          |
| SSMC                      | 2,928         |          | 6,514         |          |
| Philips                   |               |          | 4,024,990     | 1        |
| Others                    |               |          | 42,008        |          |
|                           | \$ 801,970    |          | \$ 4,187,333  | 1        |
| Purchases                 |               |          |               |          |
| SSMC                      | \$ 5,468,410  | 3        | \$ 6,820,632  | 4        |
| VIS                       | 4,208,207     | 2        | 3,919,566     | 3        |
| VisEra                    | 594           |          |               |          |
|                           | \$ 9,677,211  | 5        | \$ 10,740,198 | 7        |
| Manufacturing expenses    |               |          |               |          |
| technical assistance fees |               |          |               |          |
| VisEra                    | \$ 63,933     |          | \$            |          |
| VIS                       | 366           |          |               |          |
| Philips                   |               |          | 755,904       |          |

\$ 64,299

\$ 755,904

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|   | 2007         |     | 2006         |     |
|---|--------------|-----|--------------|-----|
|   | Amount       | %   | Amount       | %   |
| Research and development expenses VisEra                | \$ 43,056    |     | \$           |     |
| Non-operating income and gains                          |              |     |              |     |
| VIS (primarily technical service income; see Note 28h)  | \$ 346,260   | 3   | \$ 261,245   | 3   |
| VisEra  | 321,819      | 3   | 246,242      | 2   |
| SSMC (primarily technical service income; see Note 28e) | 290,586      | 2   | 314,953      | 3   |
|   | \$ 958,665   | 8   | \$ 822,440   | 8   |
| As of December 31                                       |              |     |              |     |
| Receivables   |              |     |              |     |
| VisEra  | \$ 10,885    | 100 | \$ 1,033     |     |
| Philips   |              |     | 250,919      | 99  |
| Others  |              |     | 387          | 1   |
|   | \$ 10,885    | 100 | \$ 252,339   | 100 |
| Other receivables                                       |              |     |              |     |
| VIS   | \$ 118,749   | 49  | \$ 121,911   | 47  |
| SSMC  | 84,778       | 35  | 69,568       | 27  |
| VisEra  | 40,093       | 16  | 58,989       | 23  |
| Others  |              |     | 6,395        | 3   |
|   | \$ 243,620   | 100 | \$ 256,863   | 100 |
| Payables  |              |     |              |     |
| VIS   | \$ 839,624   | 56  | \$ 719,832   | 38  |
| SSMC  | 655,029      | 44  | 459,305      | 25  |
| VisEra  | 8,723        |     |              |     |
| Philips   |              |     | 688,591      | 37  |
|   | \$ 1,503,376 | 100 | \$ 1,867,728 | 100 |

|                          |    |        |            |               |
|--------------------------|----|--------|------------|---------------|
| Other long-term payables |    |        |            |               |
| Philips (see Note 28a)   | \$ |        | \$ 403,375 | 100           |
| Deferred credits         |    |        |            |               |
| VisEra                   | \$ | 62,175 | 1          | \$ 124,350 11 |

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

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

TSMC leased certain buildings and facilities to VisEra. The related rental income was classified under non-operating income. The lease terms and prices were determined in accordance with mutual agreements.

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**Table of Contents****26. PLEDGED OR MORTGAGED ASSETS**

The Company provided certain assets as collateral mainly for long-term bank loans and land lease agreements, which were as follows:

|                                    | <b>December 31</b>  |                     |
|------------------------------------|---------------------|---------------------|
|                                    | <b>2007</b>         | <b>2006</b>         |
| Other financial assets             | \$ 48,929           | \$ 52,858           |
| Property, plant and equipment, net | 5,733,263           | 4,293,595           |
|                                    | <b>\$ 5,782,192</b> | <b>\$ 4,346,453</b> |

**27. SIGNIFICANT LONG-TERM LEASES**

The Company leases several parcels of land and office premises from the SPA and Jhongli Industrial Park Service Center. These operating leases expire on various dates from March 2008 to December 2027 and can be renewed upon expiration.

The Company entered into lease agreements for its office premises and certain equipment located in the United States, Japan, Shanghai and Taiwan. These operating leases expire between 2008 and 2016 and can be renewed upon expiration.

As of December 31, 2007, future lease payments were as follows:

| <b>Year</b>         | <b>Amount</b>       |
|---------------------|---------------------|
| 2008                | \$ 556,943          |
| 2009                | 544,866             |
| 2010                | 458,770             |
| 2011                | 319,274             |
| 2012 and thereafter | 2,582,888           |
|                     | <b>\$ 4,462,741</b> |

**28. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

Significant commitments and contingencies of the Company as of December 31, 2007, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, TSMC 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 TSMC and Philips (now NXP B.V.) will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, TSMC will pay Philips (now NXP B.V.) royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of TSMC's annual net sales. TSMC and Philips (now NXP B.V.) agreed to cross license the patents owned by each party. TSMC also obtained through Philips (now NXP B.V.) a number of cross patent licenses.

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- b. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity if TSMC'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. The agreement was automatically renewed in 1992, 1997, 2002 and on January 1, 2007.
- c. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2007, TSMC had a total of US\$68,391 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. TSMC's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. TSMC 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, TSMC 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. TSMC and Philips (now NXP B.V.) are required, in the aggregate, to purchase up to 70% of SSMC's capacity, but TSMC 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. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. TSMC 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. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, TSMC shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives written notice for early termination under certain conditions. In January 2003, TSMC and National entered into a Termination Agreement whereby the TTA was terminated. Under the Termination Agreement, TSMC will be relieved of any further obligation to transfer any additional technology. In addition, TSMC granted National an option to request prior to January 2008 the transfer of certain technologies under the same terms and conditions as the terminated TTA. National did not make such request by the deadline, therefore the option has expired in January 2008.
- g. In December 2003, TSMC entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. TSMC will also license related 90-nm SOI technology from Freescale Semiconductor, Inc. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, TSMC will pay royalties to Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- h. TSMC provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into on April 1, 2004. TSMC 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 TSMC certain products at prices as



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- i. Effective January 1, 2006, The Company entered into the Joint Technology Cooperation Agreement with Philips (now NXP B.V.), Freescale Semiconductor, Inc. and STMicroelectronics to jointly develop 45-nm and beyond advanced CMOS Logic and e-DRAM technologies. The Company will contribute process technologies and share a portion of the costs associated with this joint development project. This agreement was to expire on December 31, 2008, but the Company has ended its participation in the project. For the Company, this agreement will terminate as of January 26, 2008.
- j. 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, 2007, SMIC had paid US\$90 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.
- k. In April 2004, UniRAM Technology, Inc. filed an action with the US District Court in the Northern District of California against TSMC and TSMC North America, alleging patent infringement and trade secret misappropriation and seeking injunctive relief and damages. A jury in the District Court made a verdict in September 2007, awarding US\$30.5 million to the plaintiff. TSMC intends to pursue remedies against this verdict.
- l. TSMC-Shanghai entered into an agreement with a certain foreign company. In accordance with the agreement, TSMC-Shanghai is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. If the purchase is not completed, TSMC-Shanghai is obligated to compensate the counterparty for the loss incurred.
- m. Amounts available under unused letters of credit as of December 31, 2007 were NT\$36,589 thousand.



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**29. ADDITIONAL DISCLOSURES**

Following are the additional disclosures required by the SFB for TSMC 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 and 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 amounting to 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 over which TSMC exercises significant influence: Please see Table 6 attached;
- j. 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 Table 8 attached.
- k. Intercompany relationships and significant intercompany transactions: Please see Table 8 attached.

**30. SEGMENT FINANCIAL INFORMATION**

- a. Industry financial information  
The Company is engaged mainly in the manufacturing, selling, packaging and testing of integrated circuits. Therefore, the disclosure of industry financial information is not applicable to the Company.

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## b. Geographic information:

|   | <b>North<br/>America<br/><br/>and Others</b> | <b>Taiwan</b>  | <b>Adjustments<br/>and<br/>Elimination</b> | <b>Consolidated</b> |
|---|--|----------------|--|---------------------|
| 2007                                      |  |                |  |                     |
| Sales to other than consolidated entities | \$ 193,066,238                               | \$ 129,564,358 | \$   | \$ 322,630,596      |
| Sales among consolidated entities         | 18,084,068                                   | 194,035,526    | (212,119,594)                              |                     |
| Total sales                               | \$ 211,150,306                               | \$ 323,599,884 | \$ (212,119,594)                           | \$ 322,630,596      |
| Gross profit                              | \$ 3,895,144                                 | \$ 139,227,508 | \$ (772,441)                               | \$ 142,350,211      |
| Operating expenses                        |  |                |  | (30,628,304)        |
| Non-operating income and gains            |  |                |  | 11,933,803          |
| Non-operating expenses and losses         |  |                |  | (2,013,684)         |
| Income before income tax                  |  |                |  | \$ 121,642,026      |
| Identifiable assets                       | \$ 145,483,411                               | \$ 439,675,938 | \$ (50,755,448)                            | \$ 534,403,901      |
| Long-term investments                     |  |                |  | 36,461,325          |
| Total assets                              |  |                |  | \$ 570,865,226      |
| 2006                                      |  |                |  |                     |
| Sales to other than consolidated entities | \$ 191,511,929                               | \$ 125,895,242 | \$   | \$ 317,407,171      |
| Sales among consolidated entities         | 18,998,614                                   | 191,345,140    | (210,343,754)                              |                     |
| Total sales                               | \$ 210,510,543                               | \$ 317,240,382 | \$ (210,343,754)                           | \$ 317,407,171      |
| Gross profit                              | \$ 5,641,405                                 | \$ 150,498,038 | \$ (329,353)                               | \$ 155,810,090      |
| Operating expenses                        |  |                |  | (28,545,396)        |
| Non-operating income and gains            |  |                |  | 9,705,592           |
| Non-operating expenses and losses         |  |                |  | (3,608,078)         |

|                          |                |                |                 |                |
|--------------------------|----------------|----------------|-----------------|----------------|
| Income before income tax |                |                |                 | \$ 133,362,208 |
| Identifiable assets      | \$ 133,341,631 | \$ 441,339,388 | \$ (41,091,011) | \$ 533,590,008 |
| Long-term investments    |                |                |                 | 53,895,151     |
| Total assets             |                |                |                 | \$ 587,485,159 |

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c. Export sales

| <b>Area</b>       | <b>Years Ended December 31</b> |               |
|-------------------|--------------------------------|---------------|
|                   | <b>2007</b>                    | <b>2006</b>   |
| Asia              | \$ 40,609,413                  | \$ 62,434,071 |
| Europe and others | 34,518,668                     | 23,764,877    |
|                   | \$ 75,128,081                  | \$ 86,198,948 |

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

|            | <b>Years Ended December 31</b> |          |               |          |
|------------|--------------------------------|----------|---------------|----------|
|            | <b>2007</b>                    |          | <b>2006</b>   |          |
|            | <b>Amount</b>                  | <b>%</b> | <b>Amount</b> | <b>%</b> |
| Customer A | \$37,731,028                   | 11       | \$33,950,441  | 11       |
|            | - 48 -                         |          |               |          |

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**MARKETABLE SECURITIES HELD**  
**DECEMBER 31, 2007**  
**(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

December 31, 2007

| Marketable Securities Type and Name    | Relationship with the Company | Financial Statement Account         | Shares/Units Carrying Per Value |                     |
|--|-------------------------------|-------------------------------------|---------------------------------|---------------------|
|  |                               |                                     | (in Thousands)                  | (US\$ in Thousands) |
| <u>Open end mutual funds</u>           |                               |                                     |                                 |                     |
| NITC Bond Fund                         |                               | Available-for-sale financial assets | 12,239                          | \$2,045,935         |
| Fuh Hwa Bond                           |                               | "                                   | 132,997                         | 1,801,674           |
| NITC Taiwan Bond                       |                               | "                                   | 103,016                         | 1,474,856           |
| ING Taiwan Bond Fund                   |                               | "                                   | 85,581                          | 1,310,030           |
| Prudential Financial Bond Fund         |                               | "                                   | 83,306                          | 1,236,728           |
| President James Bond                   |                               | "                                   | 77,128                          | 1,208,799           |
| F Taiwan Bond Fund                     |                               | "                                   | 59,049                          | 915,252             |
| ING Taiwan Income Fund                 |                               | "                                   | 54,621                          | 878,682             |
| Gaishin Lucky Fund                     |                               | "                                   | 68,945                          | 718,556             |
| AIG Taiwan Bond Fund                   |                               | "                                   | 54,469                          | 705,033             |
| Cathay Bond Fund                       |                               | "                                   | 60,126                          | 703,824             |
| Dresdner Bond DAM Fund                 |                               | "                                   | 54,319                          | 639,542             |
| F First Bond Fund                      |                               | "                                   | 35,324                          | 504,206             |
| HSBC Taiwan Money Management Fund      |                               | "                                   | 27,416                          | 413,504             |
| INVESCO Bond Fund                      |                               | "                                   | 27,176                          | 410,054             |
| <u>Government bond</u>                 |                               |                                     |                                 |                     |
| 2003 Government Bond Series B          |                               | Available-for-sale financial assets |                                 | 2,349,163           |
| 2004 Government Bond Series B          |                               | "                                   |                                 | 1,197,121           |
| 2006 Government Bond Series D          |                               | "                                   |                                 | 399,733             |
| 2004 Government Bond Series G          |                               | "                                   |                                 | 200,065             |
| 2006 Government Bond Series D          |                               | Held-to-maturity financial assets   |                                 | 3,651,840           |
| 2003 Government Bond Series B          |                               | "                                   |                                 | 1,647,947           |
| 2003 Asian Development Bank Govt. Bond |                               | "                                   |                                 | 855,088             |
| 2003 Government Bond Series F          |                               | "                                   |                                 | 799,049             |
| 2003 Government Bond Series H          |                               | "                                   |                                 | 400,709             |
| European Investment Bank Bonds         |                               | "                                   |                                 | 379,829             |
|  |                               | "                                   |                                 | 89,963              |

2003 European Bank for Reconstruction  
and Development Govt. Bond Series A

Corporate bond

|                                   |  |           |
|-----------------------------------|--|-----------|
| Hua Nan Bank                      | Available-for-sale financial<br>assets | 1,573,338 |
| Cathay Bank                       | "                                      | 1,180,440 |
| Taiwan Power Company              | "                                      | 899,200   |
| Formosa Petrochemical Corporation | "                                      | 399,264   |
| Formosa Petrochemical Corporation | Held-to-maturity financial<br>assets   | 3,581,667 |
| Taiwan Power Company              | "                                      | 2,630,064 |
| Nan Ya Plastics Corporation       | "                                      | 1,804,346 |
| CPC Corporation, Taiwan           | "                                      | 1,200,318 |
| China Steel Corporation           | "                                      | 1,000,000 |
| Formosa Plastic Corporation       | "                                      | 391,134   |
| Shanghai commercial & Saving Bank | "                                      | 292,718   |

(Continued)

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|                                |  |  | December 31, 20                  |  |                        |
|--------------------------------|--|--|----------------------------------|--|------------------------|
| Table Securities Type and Name | Relationship with the Company                  | Financial Statement Account                  | Shares/Unit<br>(in<br>Thousands) | Carrying Value<br>(US\$ in<br>Thousands) | Percent<br>of<br>Owner |
| Global                         | Subsidiary                                     | Investment accounted for using equity method | 1                                | \$44,204,188                             | 100                    |
| International                  | Subsidiary                                     | "  | 987,968                          | 27,688,565                               | 100                    |
|                                | Investee accounted for using equity method     | "  | 616,240                          | 11,024,568                               | 36                     |
|                                | Investee accounted for using equity method     | "  | 463                              | 9,092,741                                | 39                     |
| Partners                       | Subsidiary                                     | "  | 300                              | 4,734,180                                | 100                    |
| North America                  | Subsidiary                                     | "  | 11,000                           | 2,255,647                                | 100                    |
|                                | Investee with a controlling financial interest | "  | 91,703                           | 1,501,521                                | 43                     |
|                                | Investee with a controlling financial interest | "  | 42,572                           | 823,552                                  | 37                     |
| Japan                          | Subsidiary                                     | "  | 6                                | 104,929                                  | 100                    |
| Europe                         | Subsidiary                                     | "  |                                  | 88,702                                   | 100                    |
| Korea                          | Subsidiary                                     | "  | 80                               | 16,436                                   | 100                    |
| Industrial Gases Co., Ltd.     |  | Financial assets carried at cost             | 16,783                           | 193,584                                  | 10                     |
| Su Handotai Taiwan Co., Ltd.   |  | "  | 10,500                           | 105,000                                  | 7                      |
| Technology Fund IV             |  | "  | 4,000                            | 40,000                                   | 2                      |
| Venture Capital Co., Ltd.      |  | "  | 2,633                            | 26,329                                   | 10                     |
| Ventures Fund                  |  | Financial assets carried at cost             |                                  | 312,949                                  | 12                     |
| Asia Capital                   |  | "  |                                  | 70,298                                   | 1                      |
| Shanghai                       | Subsidiary                                     | Investment accounted for using equity method |                                  | 8,622,715                                | 100                    |
|                                | Subsidiary                                     | "  |                                  | 1,170,841                                | 98                     |
| I                              | Subsidiary                                     | "  |                                  | 906,536                                  | 98                     |
| g Alliance                     | Subsidiary                                     | "  |                                  | 467,873                                  | 99                     |
| g                              | Subsidiary                                     | "  |                                  | 173,429                                  | 36                     |

|             |  |   |        |              |     |
|-------------|--|---|--------|--------------|-----|
|             | Subsidiary                                 | "   |        | 171,658      | 36  |
|             | Parent Company                             | Available-for-sale financial assets           | 17,032 | 1,055,984    |     |
|             | Investee accounted for using equity method | Investments accounted for using equity method | 5,082  | 109,815      |     |
|             | Parent Company                             | Available-for-sale financial assets           | 17,064 | 1,057,963    |     |
|             | Investee accounted for using equity method | Investments accounted for using equity method | 3,748  | 85,718       |     |
|             | Subsidiary                                 | Investments accounted for using equity method | 8,721  | US\$ 42,038  | 97  |
| II          | Subsidiary                                 | "   | 43,048 | US\$ 57,594  | 97  |
| development | Subsidiary                                 | "   | 1      | US\$ 674,084 | 100 |
| technology  | Subsidiary                                 | "   | 1      | US\$ 6,592   | 100 |

(Continued)



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|                                     |  |   | December 31, 2019                                 |                     |
|-------------------------------------|--|---|---|---------------------|
| Marketable Securities Type and Name | Relationship with the Company              | Financial Statement Account                   | Shares/Units Carrying Per Value<br>(in Thousands) | (US\$ in Thousands) |
| <b>Equity securities</b>            |  |   |   |                     |
| WaferTech                           | Subsidiary                                 | Investments accounted for using equity method |   | US\$227,469         |
| <b>Common stock</b>                 |  |   |   |                     |
| VisEra Holding Company              | Investee accounted for using equity method | Investments accounted for using equity method | 43,000  | US\$ 67,948         |
| SMC Canada                          | Subsidiary                                 | "   | 2,300   | US\$ 2,877          |
| <b>Common stock</b>                 |  |   |   |                     |
| ixim, Inc.                          |  | Financial assets carried at cost              | 1,036   | US\$ 275            |
| RichWave Technology Corp.           |  | "   | 4,247   | US\$ 1,648          |
| Global Investment Holding Inc.      |  | "   | 10,800  | \$100,000           |
| <b>Preferred stock</b>              |  |   |   |                     |
| audience, Inc.                      |  | Financial assets carried cost                 | 1,654   | US\$ 250            |
| axiom Microdevices, Inc.            |  | "   | 1,000   | US\$ 1,000          |
| Miradia, Inc.                       |  | "   | 3,040   | US\$ 1,000          |
| Mobilygen                           |  | "   | 1,415   | US\$ 750            |
| Mosaic Systems, Inc.                |  | "   | 2,481   | US\$ 12             |
| Text IO, Inc.                       |  | "   | 800   | US\$ 500            |
| Optichron, Inc.                     |  | "   | 714   | US\$ 1,000          |
| Optimal Corporation                 |  | "   |   | US\$ 229            |
| ixim, Inc.                          |  | "   | 3,606   | US\$ 862            |
| teknovus, Inc.                      |  | "   | 6,977   | US\$ 1,327          |
| <b>Capital</b>                      |  |   |   |                     |
| VentureTech Alliance Holdings       | Subsidiary                                 | Investments accounted for using equity method |   |                     |
| <b>Common stock</b>                 |  |   |   |                     |
| Yobon                               |  | Financial assets carried at cost              | 1,875   | US\$ 919            |
| entelic                             |  | "   | 1,200   | US\$ 2,040          |
| eadtrend                            |  | "   | 1,265   | US\$ 660            |
| RichWave Technology Corp.           |  | "   | 1,043   | US\$ 730            |
| <b>Preferred stock</b>              |  |   |   |                     |
| V Technologies, Inc.                |  | Financial assets carried cost                 | 2,357   | US\$ 1,768          |
| Ageia Technologies, Inc.            |  | "   | 2,030   | US\$ 2,074          |

|                               |   |       |      |       |
|-------------------------------|---|-------|------|-------|
| Aquantia Corporation          | " | 1,786 | US\$ | 2,273 |
| Audience, Inc.                | " | 2,989 | US\$ | 814   |
| Axiom Microdevices, Inc.      | " | 5,044 | US\$ | 2,088 |
| Beceem Communications         | " | 650   | US\$ | 1,600 |
| Bemfire Corporation           | " | 600   | US\$ | 68    |
| Chipin, Inc.                  | " | 475   | US\$ | 1,000 |
| Cirradia, Inc.                | " | 3,416 | US\$ | 3,106 |
| Cobilygen                     | " | 569   | US\$ | 149   |
| Context IO, Inc.              | " | 216   | US\$ | 182   |
| Optichron, Inc.               | " | 1,050 | US\$ | 1,844 |
| Maxim, Inc.                   | " | 3,279 | US\$ | 641   |
| Power Analog Microelectronics | " | 3,039 | US\$ | 2,409 |
| QST Holding, LLC              | " |       | US\$ | 145   |
| Teknovus, Inc.                | " | 1,599 | US\$ | 454   |

(Continued)

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|   |                               |   | December 31, 2019              |                                       |
|---|-------------------------------|---|--------------------------------|---------------------------------------|
| Marketable Securities Type and Name     | Relationship with the Company | Financial Statement Account                           | Shares/Units<br>(in Thousands) | Carrying Value<br>(US\$ in Thousands) |
| <b>Equity</b>                           |                               |   |                                |                                       |
| <u>Common stock</u>                     |                               |   |                                |                                       |
| Tzero Technologies, Inc.                |                               | Financial assets carried cost                         | 730                            | US\$ 1,500                            |
| Xceive                                  |                               | "   | 714                            | US\$ 1,000                            |
| <u>Capital</u>                          |                               |   |                                |                                       |
| VentureTech Alliance Holdings           | Subsidiary                    | Investments accounted for using equity method         |                                |                                       |
| <u>Common stock</u>                     |                               |   |                                |                                       |
| Mutual-pak Technology Co., Ltd.         | Subsidiary                    | Investments accounted for using equity method         | 4,590                          | US\$ 1,672                            |
| <u>Preferred stock</u>                  |                               |   |                                |                                       |
| Advasure Sensors, Inc.                  |                               | "   | 1,929                          | US\$ 1,834                            |
| Auramicro, Inc.                         |                               | "   | 2,500                          | US\$ 750                              |
| Exclara, Inc. (Formerly Synpitem, Inc.) |                               | "   | 14,513                         | US\$ 2,412                            |
| 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                            |
| <u>Convertible bond</u>                 |                               |   |                                |                                       |
| GTBF, Inc.                              |                               | Financial assets carried at cost                      |                                | US\$ 1,500                            |
| <u>Capital</u>                          |                               |   |                                |                                       |
| VentureTech Alliance Holdings           | Subsidiary                    | Investments accounted for using equity method         |                                |                                       |
| <u>Common stock</u>                     |                               |   |                                |                                       |
| Monolithic Power Systems, Inc.          |                               | Financial assets at fair value through profit or loss | 1,352                          | US\$ 29,024                           |
| Memsic, Inc.                            |                               | Available-for-sale financial assets                   | 1,364                          | US\$ 13,812                           |
| Capella Microsystems (Taiwan), Inc      |                               | Financial assets carried at cost                      | 530                            | US\$ 154                              |
| <u>Preferred stock</u>                  |                               |   |                                |                                       |

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|                                     |   |       |             |
|-------------------------------------|---|-------|-------------|
| Integrated Memory Logic, Inc.       | Financial assets carried at cost                      | 2,872 | US\$ 1,221  |
| IP Unity, Inc.                      | "   | 1,008 | US\$ 494    |
| NanoAmp Solutions, Inc.             | "   | 541   | US\$ 853    |
| Sonics, Inc.                        | "   | 1,844 | US\$ 3,530  |
| <u>Common stock</u>                 |   |       |             |
| Monolithic Power Systems, Inc       | Financial assets at fair value through profit or loss | 864   | US\$ 18,561 |
| Rich Tek Technology Corp.           | "   | 152   | US\$ 1,371  |
| Geo Vision, Inc.                    | "   | 6     | US\$ 59     |
| Memsic, Inc.                        | Available-for-sale financial assets                   | 1,145 | US\$ 11,594 |
| Rich Tek Technology Corp.           | "   | 261   | US\$ 2,362  |
| Geo Vision, Inc.                    | "   | 15    | US\$ 135    |
| eLCOS Microdisplay Technology, Ltd. | Financial assets carried at cost                      | 270   | US\$ 27     |
| EoNEX Technologies, Inc.            | "   | 55    | US\$ 3,048  |
| Sonics, Inc.                        | "   | 2,220 | US\$ 32     |
| Epic Communication, Inc.            | "   | 191   | US\$ 37     |
| EON Technology, Corp.               | "   | 4,243 | US\$ 1,175  |
| Goyatek Technology, Corp.           | "   | 2,088 | US\$ 545    |
| Trendchip Technologies Corp.        | "   | 1,000 | US\$ 574    |
|                                     |   |       | (Continued) |

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December 31, 2013

| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | Shares/Units<br>(in Thousands) | Carrying Value<br>(US\$ in thousands) | Percentage<br>Owned |
|-------------------------------------|-------------------------------|-------------------------------------|--------------------------------|---------------------------------------|---------------------|
| Capella Microsystems (Taiwan), Inc  |                               | Financial assets carried at cost    | 534                            | US\$ 210                              |                     |
| Ralink Technology (Taiwan), Inc.    |                               | "                                   | 2,383                          | US\$ 791                              |                     |
| Auden Technology MFG. Co., Ltd      |                               | "                                   | 1,049                          | US\$ 223                              |                     |
| <b>Preferred stock</b>              |                               |                                     |                                |                                       |                     |
| Alchip Technologies Limited         |                               | Financial assets carried at cost    | 6,128                          | US\$2,950                             |                     |
| eLCOS Microdisplay Technology, Ltd. |                               | "                                   | 3,500                          | US\$3,500                             |                     |
| FangTek, Inc.                       |                               | "                                   | 6,931                          | US\$3,250                             |                     |
| Kilopass Technology, Inc.           |                               | "                                   | 3,887                          | US\$2,000                             |                     |
| NanoAmp Solutions, Inc.             |                               | "                                   | 375                            | US\$1,500                             |                     |
| Sonics, Inc.                        |                               | "                                   | 2,115                          | US\$3,082                             |                     |
| <b>Agency bonds</b>                 |                               |                                     |                                |                                       |                     |
| Fed Hm Ln Pc Pool 1b1225            |                               | Available-for-sale financial assets |                                | US\$ 139                              | M                   |
| Fed Hm Ln Pc Pool 1b2566            |                               | "                                   |                                | US\$ 157                              | M                   |
| Fed Hm Ln Pc Pool 1b2632            |                               | "                                   |                                | US\$ 178                              | M                   |
| Fed Hm Ln Pc Pool 1b2642            |                               | "                                   |                                | US\$ 234                              | M                   |
| Fed Hm Ln Pc Pool 1b2776            |                               | "                                   |                                | US\$ 340                              | M                   |
| Fed Hm Ln Pc Pool 1b2792            |                               | "                                   |                                | US\$ 223                              | M                   |
| Fed Hm Ln Pc Pool 1b2810            |                               | "                                   |                                | US\$ 296                              | M                   |
| Fed Hm Ln Pc Pool 1b7453            |                               | "                                   |                                | US\$2,805                             | M                   |
| Fed Hm Ln Pc Pool 1g0038            |                               | "                                   |                                | US\$ 296                              | M                   |
| Fed Hm Ln Pc Pool 1g0053            |                               | "                                   |                                | US\$ 367                              | M                   |
| Fed Hm Ln Pc Pool 1g0104            |                               | "                                   |                                | US\$ 142                              | M                   |
| Fed Hm Ln Pc Pool 1g1282            |                               | "                                   |                                | US\$4,077                             | M                   |
| Fed Hm Ln Pc Pool 1g1411            |                               | "                                   |                                | US\$3,618                             | M                   |
| Fed Hm Ln Pc Pool 1h2520            |                               | "                                   |                                | US\$2,669                             | M                   |
| Fed Hm Ln Pc Pool 1h2524            |                               | "                                   |                                | US\$1,970                             | M                   |
| Fed Hm Ln Pc Pool 780870            |                               | "                                   |                                | US\$ 721                              | M                   |
| Fed Hm Ln Pc Pool 781959            |                               | "                                   |                                | US\$3,834                             | M                   |
| Fed Hm Ln Pc Pool 782785            |                               | "                                   |                                | US\$ 254                              | M                   |
| Fed Hm Ln Pc Pool 782837            |                               | "                                   |                                | US\$ 494                              | M                   |
| Fed Hm Ln Pc Pool 782968            |                               | "                                   |                                | US\$1,147                             | M                   |
| Fed Hm Ln Pc Pool 783022            |                               | "                                   |                                | US\$ 536                              | M                   |
| Fed Hm Ln Pc Pool 783026            |                               | "                                   |                                | US\$ 303                              | M                   |
| Fed Hm Ln Pc Pool B19205            |                               | "                                   |                                | US\$7,103                             | M                   |
| Fed Hm Ln Pc Pool E89857            |                               | "                                   |                                | US\$1,347                             | M                   |

|                             |   |           |   |
|-----------------------------|---|-----------|---|
| Fed Hm Ln Pc Pool G11295    | " | US\$1,126 | M |
| Fed Hm Ln Pc Pool M80855    | " | US\$2,942 | M |
| Federal Home Ln Mtg Corp.   | " | US\$1,784 | M |
| Federal Home Ln Mtg Corp.   | " | US\$1,832 | M |
| Federal Home Ln Mtg Corp.   | " | US\$2,360 | M |
| Federal Home Ln Mtg Corp.   | " | US\$2,742 | M |
| Federal Home Ln Mtg Corp.   | " | US\$2,178 | M |
| Federal Home Ln Mtg Corp.   | " | US\$3,665 | M |
| Federal Home Ln Mtg Corp.   | " | US\$2,136 | M |
| Federal Home Ln Mtg Corp.   | " | US\$3,275 | M |
| Federal Home Ln Mtg Corp.   | " | US\$3,044 | M |
| Federal National Mort Assoc | " | US\$2,844 | M |
| Federal Natl Mtg Assn       | " | US\$2,059 | M |
| Federal Natl Mtg Assn       | " | US\$2,194 | M |
| Federal Natl Mtg Assn       | " | US\$2,011 | M |
| Federal Natl Mtg Assn       | " | US\$3,567 | M |
| Federal Natl Mtg Assn Gtd   | " | US\$1,717 | M |

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|      |                                     | December 31, 2014             |  |              |                                    |                         |
|------|-------------------------------------|-------------------------------|--|--------------|------------------------------------|-------------------------|
| Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account (in Thousands) | Shares/Units | Carrying Value (US\$ in Thousands) | Percentage of Ownership |
|      |                                     |                               |  |              |                                    |                         |
|      | Fnma Pool 255883                    |                               | Available-for-sale financial assets        |              | US\$3,126                          | N/A                     |
|      | Fnma Pool 555549                    |                               | "  |              | US\$ 1,385                         | N/A                     |
|      | Fnma Pool 555715                    |                               | "  |              | US\$ 171                           | N/A                     |
|      | Fnma Pool 632399                    |                               | "  |              | US\$ 390                           | N/A                     |
|      | Fnma Pool 662401                    |                               | "  |              | US\$ 560                           | N/A                     |
|      | Fnma Pool 667766                    |                               | "  |              | US\$1,310                          | N/A                     |
|      | Fnma Pool 680932                    |                               | "  |              | US\$1,110                          | N/A                     |
|      | Fnma Pool 681393                    |                               | "  |              | US\$2,388                          | N/A                     |
|      | Fnma Pool 685116                    |                               | "  |              | US\$ 599                           | N/A                     |
|      | Fnma Pool 691283                    |                               | "  |              | US\$3,442                          | N/A                     |
|      | Fnma Pool 694287                    |                               | "  |              | US\$ 20                            | N/A                     |
|      | Fnma Pool 703711                    |                               | "  |              | US\$ 467                           | N/A                     |
|      | Fnma Pool 725095                    |                               | "  |              | US\$1,023                          | N/A                     |
|      | Fnma Pool 730033                    |                               | "  |              | US\$ 169                           | N/A                     |
|      | Fnma Pool 740934                    |                               | "  |              | US\$1,110                          | N/A                     |
|      | Fnma Pool 742232                    |                               | "  |              | US\$ 23                            | N/A                     |
|      | Fnma Pool 750798                    |                               | "  |              | US\$ 22                            | N/A                     |
|      | Fnma Pool 773246                    |                               | "  |              | US\$ 229                           | N/A                     |
|      | Fnma Pool 790828                    |                               | "  |              | US\$2,009                          | N/A                     |
|      | Fnma Pool 793932                    |                               | "  |              | US\$ 438                           | N/A                     |
|      | Fnma Pool 794040                    |                               | "  |              | US\$ 608                           | N/A                     |
|      | Fnma Pool 795548                    |                               | "  |              | US\$ 234                           | N/A                     |
|      | Fnma Pool 799664                    |                               | "  |              | US\$ 94                            | N/A                     |
|      | Fnma Pool 799868                    |                               | "  |              | US\$ 32                            | N/A                     |
|      | Fnma Pool 804764                    |                               | "  |              | US\$ 396                           | N/A                     |
|      | Fnma Pool 804852                    |                               | "  |              | US\$ 330                           | N/A                     |
|      | Fnma Pool 804962                    |                               | "  |              | US\$ 388                           | N/A                     |
|      | Fnma Pool 805163                    |                               | "  |              | US\$ 408                           | N/A                     |
|      | Fnma Pool 806642                    |                               | "  |              | US\$ 777                           | N/A                     |
|      | Fnma Pool 806721                    |                               | "  |              | US\$ 635                           | N/A                     |
|      | Fnma Pool 814418                    |                               | "  |              | US\$ 343                           | N/A                     |
|      | Fnma Pool 815626                    |                               | "  |              | US\$2,301                          | N/A                     |
|      | Fnma Pool 819423                    |                               | "  |              | US\$ 538                           | N/A                     |
|      | Fnma Pool 821129                    |                               | "  |              | US\$ 512                           | N/A                     |
|      | Fnma Pool 888249                    |                               | "  |              | US\$ 60                            | N/A                     |
|      | Fnma Pool 888499                    |                               | "  |              | US\$2,438                          | N/A                     |
|      | Fnma Pool 888502                    |                               | "  |              | US\$ 236                           | N/A                     |

|                     |   |           |     |
|---------------------|---|-----------|-----|
| Fnma Pool 888507    | " | US\$ 911  | N/A |
| Fnma Pool 888515    | " | US\$1,730 | N/A |
| Fnma Pool 888519    | " | US\$ 123  | N/A |
| Fnma Pool 888527    | " | US\$ 69   | N/A |
| Fnma Pool 888738    | " | US\$4,935 | N/A |
| Fnma Pool 888793    | " | US\$5,697 | N/A |
| Fnma Pool 900296    | " | US\$3,276 | N/A |
| Gnma Ii Pool 081150 | " | US\$ 470  | N/A |
| Gnma Ii Pool 081153 | " | US\$1,423 | N/A |
| Fed Home Ln Bank    | " | US\$5,175 | N/A |
| Federal Farm Cr Bks | " | US\$3,511 | N/A |
| Federal Home Ln Bks | " | US\$8,977 | N/A |
| Federal Home Ln Bks | " | US\$8,939 | N/A |
| Federal Home Ln Bks | " | US\$4,965 | N/A |
| Federal Home Ln Bks | " | US\$5,969 | N/A |
| Federal Home Ln Bks | " | US\$4,980 | N/A |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account (in Thousands) | Shares/Units Carrying Value (US\$ in Thousands) | Percentage of Total Assets |
|-------------------------------------|-------------------------------|--|---|----------------------------|
| Federal Home Ln Bks                 |                               | Available-for-sale financial assets        | US\$ 19,023                                     | N/A                        |
| Federal Home Ln Bks                 |                               | "  | US\$ 5,134                                      | N/A                        |
| Federal Home Ln Mtg Disc Nts        |                               | "  | US\$ 22,342                                     | N/A                        |
| Federal Home Loan Bank              |                               | "  | US\$ 4,621                                      | N/A                        |
| Federal Home Loan Banks             |                               | "  | US\$ 21,500                                     | N/A                        |
| Federal Natl Mtg Assn               |                               | "  | US\$ 5,169                                      | N/A                        |
| Federal Natl Mtg Assn Medium        |                               | "  | US\$ 3,512                                      | N/A                        |
| Federal Natl Mtg Assn Mtn           |                               | "  | US\$ 2,982                                      | N/A                        |
| Federal Natl Mtg Assn Mtn           |                               | "  | US\$ 3,171                                      | N/A                        |
| Federal Natl Mtg Assn Mtn           |                               | "  | US\$ 3,398                                      | N/A                        |
| Federal Natl Mtg Assn Mtn           |                               | "  | US\$ 3,066                                      | N/A                        |
| Tennessee Valley Auth               |                               | "  | US\$ 6,068                                      | N/A                        |
| <b>Corporate bonds</b>              |                               |  |   |                            |
| Abbott Labs                         |                               | Available-for-sale financial assets        | US\$ 1,510                                      | N/A                        |
| American Gen Fin Corp.              |                               | "  | US\$ 3,139                                      | N/A                        |
| American Gen Fin Corp. Mtn          |                               | "  | US\$ 3,451                                      | N/A                        |
| American Gen Fin Corp. Mtn          |                               | "  | US\$ 1,962                                      | N/A                        |
| American Honda Fin Corp. Mtn        |                               | "  | US\$ 3,107                                      | N/A                        |
| Ameritech Capital Funding Co.       |                               | "  | US\$ 489  | N/A                        |
| Amgen Inc.                          |                               | "  | US\$ 2,978                                      | N/A                        |
| Anz Cap Tr I                        |                               | "  | US\$ 984  | N/A                        |
| Atlantic Richfield Co.              |                               | "  | US\$ 2,216                                      | N/A                        |
| Axa Finl Inc.                       |                               | "  | US\$ 2,147                                      | N/A                        |
| Beneficial Corp. Mtn Bk Entry       |                               | "  | US\$ 2,274                                      | N/A                        |
| Burlington Res Inc.                 |                               | "  | US\$ 3,653                                      | N/A                        |
| Chase Manhattan Corp. New           |                               | "  | US\$ 1,520                                      | N/A                        |
| Chase Manhattan Corp. New           |                               | "  | US\$ 2,099                                      | N/A                        |
| Chase Manhattan Corp. New           |                               | "  | US\$ 3,483                                      | N/A                        |
| Cit Group Hldgs Inc.                |                               | "  | US\$ 2,982                                      | N/A                        |
| Cit Group Inc. New                  |                               | "  | US\$ 2,435                                      | N/A                        |
| Consolidated Edison Inc.            |                               | "  | US\$ 2,990                                      | N/A                        |
| Credit Suisse First Boston Usa      |                               | "  | US\$ 2,229                                      | N/A                        |
| Deere John Cap Corp. Mtn Bk Ent     |                               | "  | US\$ 2,215                                      | N/A                        |
| Depfa Acs Bank                      |                               | "  | US\$ 20,402                                     | N/A                        |
| Fleet Boston Corp.                  |                               | "  | US\$ 2,620                                      | N/A                        |

|                                |   |            |     |
|--------------------------------|---|------------|-----|
| Ge Global Ins Hldg Corp.       | " | US\$ 1,914 | N/A |
| General Dynamics Corp.         | " | US\$ 2,133 | N/A |
| General Elec Cap Corp. Mtn     | " | US\$ 3,978 | N/A |
| General Elec Cap Corp. Mtn     | " | US\$ 3,047 | N/A |
| General Elec Cap Corp. Mtn     | " | US\$ 2,118 | N/A |
| General Re Corp.               | " | US\$ 3,263 | N/A |
| Genworth Finl Inc.             | " | US\$ 3,279 | N/A |
| Hancock John Global Fdg Ii Mtn | " | US\$ 5,111 | N/A |
| Hancock John Global Fdg Mtn    | " | US\$ 993   | N/A |
| Hartford Finl Svcs Group Inc.  | " | US\$ 1,336 | N/A |
| Hbos Plc Medium Term Sr Nts    | " | US\$ 3,001 | N/A |
| Heller Finl Inc.               | " | US\$ 1,950 | N/A |
| Hewlett Packard Co.            | " | US\$ 1,884 | N/A |
| Household Fin Corp.            | " | US\$ 2,950 | N/A |
| Household Fin Corp.            | " | US\$ 3,046 | N/A |
| Ing Sec Life Instl Fdg         | " | US\$ 2,582 | N/A |
| International Business Machs   | " | US\$ 3,555 | N/A |
| Intl Lease Fin Corp. Mtn       | " | US\$ 2,985 | N/A |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | Shares/Units Carrying Value (in Thousands) | Percentage of Ownership |
|-------------------------------------|-------------------------------|-------------------------------------|--|-------------------------|
| JP Morgan Chase                     |                               | Available-for-sale financial assets | US\$2,001                                  | N/A                     |
| Keycorp Mtn Book Entry              |                               | "                                   | US\$3,053                                  | N/A                     |
| Lehman Brothers Hldgs Inc.          |                               | "                                   | US\$1,643                                  | N/A                     |
| Lehman Brothers Hldgs Inc.          |                               | "                                   | US\$ 490                                   | N/A                     |
| Lehman Brothers Hldgs Inc.          |                               | "                                   | US\$ 989                                   | N/A                     |
| Lehman Brothers Hldgs Inc.          |                               | "                                   | US\$3,052                                  | N/A                     |
| Lehman Brothers Hldgs Inc.          |                               | "                                   | US\$1,060                                  | N/A                     |
| Massmutual Global Fdg Ii Mtn        |                               | "                                   | US\$3,737                                  | N/A                     |
| Metropolitan Life Golbal Mtn        |                               | "                                   | US\$3,366                                  | N/A                     |
| Mgic Invt Corp.                     |                               | "                                   | US\$1,059                                  | N/A                     |
| Mizuho Fin (Cayman)                 |                               | "                                   | US\$2,148                                  | N/A                     |
| Monumental Global Fdg Ii            |                               | "                                   | US\$1,494                                  | N/A                     |
| Monunmetal Global Fdg Ii            |                               | "                                   | US\$2,000                                  | N/A                     |
| Mony Group Inc.                     |                               | "                                   | US\$2,137                                  | N/A                     |
| Morgan Stanley                      |                               | "                                   | US\$5,531                                  | N/A                     |
| Morgan Stanley                      |                               | "                                   | US\$1,951                                  | N/A                     |
| National City Corp.                 |                               | "                                   | US\$3,488                                  | N/A                     |
| Nationwide Life Global Fdg I        |                               | "                                   | US\$3,631                                  | N/A                     |
| Oracle Corp. / Ozark Hldg Inc.      |                               | "                                   | US\$2,019                                  | N/A                     |
| Pepsico Inc. Mtn Book Entry         |                               | "                                   | US\$3,607                                  | N/A                     |
| Praxair Inc.                        |                               | "                                   | US\$3,111                                  | N/A                     |
| Premark Intl Inc.                   |                               | "                                   | US\$2,679                                  | N/A                     |
| Pricoa Global Fdg I Mtn             |                               | "                                   | US\$3,462                                  | N/A                     |
| Principal Finl Group Australia      |                               | "                                   | US\$1,008                                  | N/A                     |
| Protective Life Secd Trs Mtn        |                               | "                                   | US\$3,484                                  | N/A                     |
| Sbc Communications Inc.             |                               | "                                   | US\$3,372                                  | N/A                     |
| Sbc Communications Inc.             |                               | "                                   | US\$ 711                                   | N/A                     |
| Simon Ppty Group LP                 |                               | "                                   | US\$2,513                                  | N/A                     |
| Simon Ppty Group LP                 |                               | "                                   | US\$1,010                                  | N/A                     |
| Sp Powerassests Ltd. Global         |                               | "                                   | US\$ 993                                   | N/A                     |
| Suntrust Bk Atlanta Ga Medium       |                               | "                                   | US\$3,482                                  | N/A                     |
| Unitedhealth Group Inc.             |                               | "                                   | US\$1,408                                  | N/A                     |
| Wachovia Corp. New                  |                               | "                                   | US\$3,168                                  | N/A                     |
| Washington Post Co.                 |                               | "                                   | US\$3,018                                  | N/A                     |
| Wells Fargo + Co. New Med Trm       |                               | "                                   | US\$4,413                                  | N/A                     |

Corporate issued asset-backed securities

|                                 |                                     |           |     |
|---------------------------------|-------------------------------------|-----------|-----|
| Americredit Auto Rec Tr         | Available-for-sale financial assets | US\$1,001 | N/A |
| Americredit Automobile Rec Tr   | "                                   | US\$ 894  | N/A |
| Americredit Automobile Receiva  | "                                   | US\$1,176 | N/A |
| Atlantic City Elc Trns Fdglc    | "                                   | US\$ 162  | N/A |
| Banc Amer Coml Mtg Inc.         | "                                   | US\$4,591 | N/A |
| Banc Amer Fdg 2006 I Tr         | "                                   | US\$3,762 | N/A |
| Bear Stearns Adjustable Rate    | "                                   | US\$ 110  | N/A |
| Bear Stearns Arm Tr             | "                                   | US\$3,081 | N/A |
| Bear Stearns Arm Tr             | "                                   | US\$1,951 | N/A |
| Bear Stearns Arm Tr             | "                                   | US\$ 247  | N/A |
| Bear Stearns Coml Mtg Secs Inc. | "                                   | US\$3,179 | N/A |
| Bear Stearns Coml Mtg Secs Inc. | "                                   | US\$5,099 | N/A |
| Capital One Auto Fin Tr         | "                                   | US\$ 906  | N/A |
| Capital One Auto Fin Tr         | "                                   | US\$3,685 | N/A |
| Capital One Multi Asset Exec    | "                                   | US\$9,118 | N/A |
| Capital One Multi Asset Execut  | "                                   | US\$3,991 | N/A |

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| Item | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account (in Thousands) | Value (US\$ in Thousands) | Shares/Units Carrying Percentage of Ownership |
|------|-------------------------------------|-------------------------------|--|---------------------------|---|
|      | Capital One Multi Asset Execut      |                               | Available-for-sale financial assets        | US\$2,995                 | N/A   |
|      | Capital One Prime Auto Receiva      |                               | "  | US\$3,498                 | N/A   |
|      | Capital One Prime Auto Receiv       |                               | "  | US\$ 464                  | N/A   |
|      | Cbass Tr                            |                               | "  | US\$1,297                 | N/A   |
|      | Cendant Rent Car Fdg Aesop LLC.     |                               | "  | US\$2,663                 | N/A   |
|      | Chase Mtg Fin Tr                    |                               | "  | US\$ 887                  | N/A   |
|      | Chase Mtg Fin Tr                    |                               | "  | US\$1,745                 | N/A   |
|      | Chase Mtg Fin Tr                    |                               | "  | US\$2,605                 | N/A   |
|      | Chase Mtge Finance Corp.            |                               | "  | US\$1,678                 | N/A   |
|      | Cit Equip Coll Tr                   |                               | "  | US\$4,033                 | N/A   |
|      | Citicorp Mtg Secs                   |                               | "  | US\$ 261                  | N/A   |
|      | Credit Suisse First Boston Mtg      |                               | "  | US\$1,738                 | N/A   |
|      | Credit Suisse First Boston Mtg      |                               | "  | US\$6,842                 | N/A   |
|      | Credit Suisse First Boston Mtg      |                               | "  | US\$6,704                 | N/A   |
|      | Daimlerchrysler Auto Tr             |                               | "  | US\$4,337                 | N/A   |
|      | Daimlerchrysler Auto Tr             |                               | "  | US\$1,698                 | N/A   |
|      | Deere John Owner Tr                 |                               | "  | US\$2,488                 | N/A   |
|      | First Franklin Mtg Ln Tr            |                               | "  | US\$1,659                 | N/A   |
|      | First Horizon                       |                               | "  | US\$ 45                   | N/A   |
|      | First Un Natl Bk Coml Mtg Tr        |                               | "  | US\$2,595                 | N/A   |
|      | First Un Natl Bk Coml Mtg Tr        |                               | "  | US\$5,172                 | N/A   |
|      | First Un Natl Bk Coml Mtg Tr        |                               | "  | US\$2,186                 | N/A   |
|      | Gs Mtg Secs Corp.                   |                               | "  | US\$1,709                 | N/A   |
|      | Home Equity Mortgage Trust          |                               | "  | US\$2,659                 | N/A   |
|      | Home Equity Mtg Tr 2006 4           |                               | "  | US\$ 970                  | N/A   |
|      | Hyundai Auto Receivables Tr         |                               | "  | US\$1,519                 | N/A   |
|      | JP Morgan Mtg Tr                    |                               | "  | US\$ 888                  | N/A   |
|      | JP Morgan Mtg Tr                    |                               | "  | US\$ 910                  | N/A   |
|      | JP Morgan Mtg Tr                    |                               | "  | US\$ 863                  | N/A   |
|      | Lb Ubs Coml Mtg Tr                  |                               | "  | US\$3,884                 | N/A   |
|      | Nomura Asset Accep Corp.            |                               | "  | US\$1,542                 | N/A   |
|      | Residential Asset Mtg Prods         |                               | "  | US\$2,200                 | N/A   |
|      | Residential Fdg Mtg Secs I Inc.     |                               | "  | US\$1,594                 | N/A   |
|      | Residential Fdg Mtg Secs I Inc.     |                               | "  | US\$3,454                 | N/A   |
|      | Sequoia Mtg Tr                      |                               | "  | US\$ 265                  | N/A   |
|      | Sequoia Mtg Tr                      |                               | "  | US\$ 340                  | N/A   |
|      | Sequoia Mtg Tr                      |                               | "  | US\$ 433                  | N/A   |

|                                |   |           |     |
|--------------------------------|---|-----------|-----|
| Terwin Mtg Tr                  | " | US\$3,317 | N/A |
| Tiaa Seasoned Coml Mtg Tr      | " | US\$4,016 | N/A |
| Usaa Auto Owner Tr             | " | US\$4,998 | N/A |
| Wamu Mtg                       | " | US\$3,242 | N/A |
| Wamu Mtg Pass Through Ctfs     | " | US\$ 166  | N/A |
| Washington Mut Mtg Secs Corp.  | " | US\$2,422 | N/A |
| Wells Fargo Finl Auto Owner Tr | " | US\$4,956 | N/A |
| Wells Fargo Mtg Backed Secs    | " | US\$3,816 | N/A |
| Wells Fargo Mtg Backed Secs    | " | US\$3,865 | N/A |
| Wells Fargo Mtg Backed Secs    | " | US\$3,931 | N/A |
| Wells Fargo Mtg Bkd Secs       | " | US\$3,029 | N/A |
| Wells Fargo Mtg Bkd Secs       | " | US\$1,763 | N/A |
| Whole Auto Ln Tr               | " | US\$1,828 | N/A |

Government bonds

|                         |                                     |           |     |
|-------------------------|-------------------------------------|-----------|-----|
| United States Treas Nts | Available-for-sale financial assets | US\$5,070 | N/A |
| United States Treas Nts | "                                   | US\$5,613 | N/A |

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| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account (in Thousands) | Shares/Units Carrying Value of (US\$ in Thousands) | Percentage of Ownership |
|-------------------------------------|-------------------------------|--|--|-------------------------|
| United States Treas Nts             |                               | Available-for-sale financial assets        | US\$ 42,509  | N/A                     |
| United States Treas Nts             |                               | "  | US\$ 5,160   | N/A                     |
| United States Treas Nts             |                               | "  | US\$ 3,359   | N/A                     |
| United States Treas Nts             |                               | "  | US\$ 7,758   | N/A                     |
| United States Treas Nts             |                               | "  | US\$ 25,924  | N/A                     |
| United States Treas Nts             |                               | "  | US\$ 9,735   | N/A                     |
| Wi Treasury Sec                     |                               | "  | US\$ 6,500   | N/A                     |
| <b><u>Money market funds</u></b>    |                               |  |  |                         |
| Ssga Cash Mgmt Global Offshore      |                               | Available-for-sale financial assets        | US\$592,180  | N/A                     |
|                                     |                               |  | (Concluded)  |                         |

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Table of Contents**TABLE 2**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**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 30, 2007**  
**(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Type                                | Financial Statement Account   | Counter-party Relationship | Beginning Balance     |                             | Acquisition           |                             | Disposal (Note 2)     |                             | Carrying Value (US\$ in Thousands) |
|-------------------------------------|---|----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|------------------------------------|
|                                     |   |                            | Amount (in Thousands) | Shares/Units (in Thousands) | Amount (in Thousands) | Shares/Units (in Thousands) | Amount (in Thousands) | Shares/Units (in Thousands) |                                    |
| Available-for-sale financial assets | National Investment Trust Co., Ltd.   |                            | 22,219                | \$3,655,939                 | \$                    | 9,980                       | \$1,650,000           | \$1,621,800                 |                                    |
| "                                   | Fuh Hwa Investment Trust Co., Ltd   |                            | 125,122               | 1,667,908                   | 41,289                | 556,000                     | 33,414                | 450,000                     | 442,900                            |
| "                                   | National Investment Trust Co., Ltd.   |                            | 93,312                | 1,314,669                   | 23,884                | 340,000                     | 14,180                | 200,000                     | 197,500                            |
| "                                   | ING Securities Investment Trust Co., Ltd  |                            | 175,156               | 2,639,459                   | 85,581                | 1,300,000                   | 175,156               | 2,656,012                   | 2,604,800                          |
| "                                   | Prudential Financial Securities Investment Trust Enterprise Assets Management Corp. |                            | 103,751               | 1,516,294                   |                       |                             | 20,445                | 300,000                     | 295,500                            |
| "                                   | Uni-President Assets Management Corp.   |                            | 65,496                | 1,010,426                   | 77,128                | 1,200,000                   | 65,496                | 1,016,917                   | 1,000,500                          |
| "                                   | JF Asset Management (Taiwan) Ltd.   |                            | 85,145                | 1,299,088                   | 32,507                | 500,000                     | 58,603                | 900,000                     | 883,300                            |
| "                                   | ING Securities Investment Trust Co., Ltd  |                            | 63,947                | 1,012,377                   |                       |                             | 9,326                 | 150,000                     | 145,800                            |
| "                                   | Taishin Investment  |                            | 78,624                | 806,386                     |                       |                             | 9,679                 | 100,000                     | 98,400                             |



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|  |   |         |           |        |           |         |           |           |
|--|---|---------|-----------|--------|-----------|---------|-----------|-----------|
| "                                      | Trust Co., Ltd<br>AIG Global<br>Asset<br>management<br>Corporation<br>(Taiwan) Ltd. | 78,629  | 1,002,595 | 54,469 | 700,000   | 78,629  | 1,008,733 | 1,000,000 |
| "                                      | Cathay<br>Securities<br>Investment<br>Trust Co., Ltd                                | 109,720 | 1,265,092 | 60,126 | 700,000   | 109,720 | 1,271,995 | 1,251,200 |
| "                                      | Allianz Global<br>Investors<br>Taiwan Ltd.  | 95,553  | 1,107,206 | 17,082 | 200,000   | 58,316  | 680,000   | 668,100   |
| "                                      | JF Asset<br>Management<br>(Taiwan)<br>Limited                                       | 66,826  | 939,082   | 42,360 | 600,000   | 73,862  | 1,044,083 | 1,026,600 |
| "                                      | HSBC Asset<br>Management<br>(Taiwan) Ltd.   | 34,093  | 506,250   |        |           | 6,677   | 100,000   | 98,000    |
| "                                      | ING Securities<br>Investment<br>Trust Co., Ltd                                      | 76,593  | 868,076   |        |           | 76,593  | 872,639   | 857,600   |
| "                                      | Shinkong<br>Investment<br>Trust Co., Ltd  | 62,183  | 890,660   |        |           | 62,183  | 896,299   | 879,900   |
| "                                      | Taiwan<br>International<br>Investment<br>management                                 | 44,685  | 554,863   |        |           | 44,685  | 557,263   | 550,700   |
| "                                      | JIH SUN<br>Securities<br>Investment<br>Trust Co., Ltd                               | 88,165  | 1,202,901 |        |           | 88,165  | 1,209,618 | 1,200,000 |
| "                                      | Mega<br>Investment<br>Trust Co., Ltd  | 139,333 | 1,602,947 | 94,744 | 1,100,000 | 234,077 | 2,721,023 | 2,700,000 |
| "                                      | Polaris<br>Internationa<br>Securities<br>Investment<br>Trust Co., Ltd               | 63,273  | 701,069   | 17,862 | 200,000   | 81,135  | 909,936   | 900,000   |
| Available-for-sale<br>financial assets | Chung Shing<br>Bills Finance<br>Corp. and<br>several<br>financial<br>institutions   |         | 998,288   |        | 1,348,634 |         |           |           |
| "                                      | "   |         | 999,779   |        | 200,280   |         |           |           |

|   |   |         |
|---|---|---------|
| " | " | 400,778 |
| " | " | 201,561 |

(Continued)

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| Financial Statement Account                | Counter-party Relationship   | Nature of Shares/Units (in Thousands) | Beginning Balance          |                                      | Acquisition                |                             | Disposal (Note 2)          |                            | Carrying Value (US\$ in Thousands) |
|--|--|---------------------------------------|----------------------------|--------------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|------------------------------------|
|  |  |                                       | Amount (US\$ in Thousands) | Shares/Units (in Thousands) (Note 1) | Amount (US\$ in Thousands) | Shares/Units (In Thousands) | Amount (US\$ in Thousands) | Amount (US\$ in Thousands) |                                    |
| Held-to-maturity financial assets          | Chung Shing Bills Finance Corp. and several financial institutions |                                       | \$3,049,919                |                                      | \$                         |                             | \$3,050,000                | \$3,050,000                |                                    |
| "  | "  |                                       | 350,399                    |                                      |                            |                             | 350,000                    | 350,000                    |                                    |
| "  | "  |                                       | 620,000                    |                                      |                            |                             | 620,000                    | 620,000                    |                                    |
| "  | "  |                                       | 249,998                    |                                      |                            |                             | 250,000                    | 250,000                    |                                    |
| Available-for-sale financial assets        | Chung Shing Bills Finance Corp.                                    |                                       | 1,046,799                  |                                      |                            |                             | 150,000                    | 150,000                    |                                    |
| Held-to-maturity financial assets          | "  |                                       | 4,080,391                  |                                      |                            |                             | 1,460,000                  | 1,460,000                  |                                    |
| "  | "  |                                       | 2,773,810                  |                                      |                            |                             | 970,000                    | 970,000                    |                                    |
| "  | "  |                                       | 1,451,378                  |                                      |                            |                             | 250,000                    | 250,000                    |                                    |
| "  | "  |                                       | 516,663                    |                                      |                            |                             | 136,000                    | 136,000                    |                                    |
| Investee accounted for using equity method | Investment accounted for using equity method                       | 442,262                               | 5,741,870                  | 173,979                              | 4,927,865                  |                             |                            |                            |                                    |
| "  | Investee with a controlling financial interest                     |                                       |                            | 91,703                               | 1,357,890                  |                             |                            |                            |                                    |
| Investee accounted for using equity method | Subsidiary   |                                       | 733,130                    |                                      | 310,157                    |                             |                            |                            |                                    |

|                    |      |         |         |       |                   |
|--------------------|------|---------|---------|-------|-------------------|
| "                  | "    | 228,005 | 729,914 |       |                   |
| Available-for-sale |      |         | US\$    | 4,378 |                   |
| financial assets   |      |         |         |       |                   |
| "                  |      |         | US\$    | 4,424 |                   |
| "                  |      |         | US\$    | 4,436 | US\$ 4,329 US\$ 4 |
| "                  |      |         | US\$    | 4,404 | US\$ 4,276 US\$ 4 |
| "                  |      |         | US\$    | 5,757 | US\$ 5,749 US\$ 5 |
| "                  |      |         | US\$    | 5,600 | US\$ 5,587 US\$ 5 |
| "                  |      |         | US\$    | 6,024 | US\$ 5,650 US\$ 5 |
| "                  | US\$ | 3,796   |         |       | US\$ 3,101 US\$ 3 |
| "                  |      |         | US\$    | 3,935 | US\$ 3,603 US\$ 3 |
| "                  |      |         | US\$    | 6,513 | US\$ 5,270 US\$ 5 |
| "                  | US\$ | 3,917   |         |       | US\$ 3,257 US\$ 3 |
| "                  | US\$ | 4,464   |         |       | US\$ 3,194 US\$ 3 |
| "                  | US\$ | 8,535   |         |       | US\$ 6,783 US\$ 6 |
| "                  | US\$ | 3,743   |         |       | US\$ 3,511 US\$ 3 |
| "                  |      |         | US\$    | 3,868 | US\$ 3,258 US\$ 3 |
| "                  |      |         | US\$    | 4,354 | US\$ 3,626 US\$ 3 |
| "                  |      |         | US\$    | 3,250 |                   |
| "                  | US\$ | 4,290   |         |       | US\$ 3,170 US\$ 3 |

(Continued)

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| Securities Type | Financial Statement                 | Counter-party Relationship | Nature of Shares            | Beginning Balance   | Acquisition      | Disposal (Note 2)           |                     | Carrying Value      | (US\$ in Thousands) |
|-----------------|-------------------------------------|----------------------------|-----------------------------|---------------------|------------------|-----------------------------|---------------------|---------------------|---------------------|
|                 |                                     |                            |                             | Amount              | Amount           | Amount                      | Value               |                     |                     |
| Account Name    | Account                             | Relationship               | Shares/Units (in thousands) | (US\$ in thousands) | (US\$ Thousands) | Shares/Units (in thousands) | (US\$ in thousands) | (US\$ in thousands) | (US\$ in thousands) |
| Mtg Assn Mtn    | Available-for-sale financial assets |                            |                             | US\$                | US\$ 3,733       |                             | US\$ 3,489          | US\$ 3,464          | US\$                |
| 91283           | "                                   |                            |                             |                     | US\$ 3,486       |                             |                     |                     | US\$                |
| 13641           | "                                   |                            |                             | US\$ 3,720          |                  |                             | US\$ 3,004          | US\$ 2,989          | US\$                |
| 25398           | "                                   |                            |                             | US\$ 4,224          |                  |                             | US\$ 3,606          | US\$ 3,555          | US\$                |
| 88249           | "                                   |                            |                             | US\$                | US\$ 4,822       |                             | US\$ 4,402          | US\$ 4,364          | US\$                |
| 88388           | "                                   |                            |                             |                     | US\$ 6,530       |                             | US\$ 6,270          | US\$ 6,217          | US\$                |
| 88738           | "                                   |                            |                             |                     | US\$ 5,062       |                             |                     |                     | US\$                |
| 88793           | "                                   |                            |                             |                     | US\$ 5,823       |                             |                     |                     | US\$                |
| 00296           | "                                   |                            |                             |                     | US\$ 4,336       |                             |                     |                     | US\$                |
| n Bank          | "                                   |                            |                             |                     | US\$ 5,035       |                             |                     |                     | US\$                |
| Cr Bks          | "                                   |                            |                             |                     | US\$ 3,411       |                             |                     |                     | US\$                |
| e Ln Bks        | "                                   |                            |                             | US\$ 4,920          |                  |                             | US\$ 4,938          | US\$ 4,872          | US\$                |
| e Ln Bks        | "                                   |                            |                             | US\$ 2,991          |                  |                             | US\$ 3,027          | US\$ 2,987          | US\$                |
| e Ln Bks        | "                                   |                            |                             | US\$ 12,279         |                  |                             | US\$ 12,367         | US\$ 12,233         | US\$                |
| e Ln Bks        | "                                   |                            |                             |                     | US\$ 5,365       |                             | US\$ 5,532          | US\$ 5,365          | US\$                |
| e Ln Bks        | "                                   |                            |                             | US\$ 6,905          |                  |                             | US\$ 6,947          | US\$ 6,881          | US\$                |
| e Ln Bks        | "                                   |                            |                             | US\$ 5,898          |                  |                             | US\$ 6,032          | US\$ 5,907          | US\$                |
| e Ln Bks        | "                                   |                            |                             |                     | US\$ 18,951      |                             |                     |                     | US\$                |
| e Ln Bks        | "                                   |                            |                             |                     | US\$ 5,098       |                             |                     |                     | US\$                |
| e Ln Bks        | "                                   |                            |                             |                     | US\$ 4,494       |                             | US\$ 4,610          | US\$ 4,494          | US\$                |
| e Ln Bks        | "                                   |                            |                             |                     | US\$ 8,983       |                             | US\$ 9,000          | US\$ 8,983          | US\$                |
| e Ln Bks        | "                                   |                            |                             |                     | US\$ 8,137       |                             | US\$ 8,235          | US\$ 8,137          | US\$                |
| e Ln Bks        | "                                   |                            |                             | US\$ 7,506          |                  |                             | US\$ 7,500          | US\$ 7,490          | US\$                |
| e Ln Mtg Corp   | "                                   |                            |                             | US\$ 5,948          |                  |                             | US\$ 5,966          | US\$ 5,930          | US\$                |
| e Ln Mtg Corp   | "                                   |                            |                             | US\$ 6,440          |                  |                             | US\$ 6,453          | US\$ 6,410          | US\$                |
| e Ln Mtg Corp   | "                                   |                            |                             |                     | US\$ 6,000       |                             |                     |                     | US\$                |
| e Ln Mtg Corp   | "                                   |                            |                             |                     | US\$ 3,199       |                             | US\$ 3,236          | US\$ 3,199          | US\$                |
| e Ln Mtg Disc   | "                                   |                            |                             |                     | US\$ 21,985      |                             |                     |                     | US\$                |
| e Loan Bank     | "                                   |                            |                             |                     | US\$ 5,075       |                             | US\$ 5,158          | US\$ 5,075          | US\$                |
| e Loan Bank     | "                                   |                            |                             |                     | US\$ 5,083       |                             | US\$ 4,981          | US\$ 5,083          | US\$                |
| e Loan Bank     | "                                   |                            |                             |                     | US\$ 4,518       |                             |                     |                     | US\$                |
| e Loan Bank     | "                                   |                            |                             |                     | US\$ 3,453       |                             | US\$ 3,472          | US\$ 3,453          | US\$                |
| e Loan Banks    | "                                   |                            |                             | US\$ 8,049          | US\$ 21,356      |                             | US\$ 8,201          | US\$ 8,081          | US\$                |
| Mtg Assn        | "                                   |                            |                             | US\$ 4,365          |                  |                             | US\$ 4,440          | US\$ 4,364          | US\$                |
| Mtg Assn        | "                                   |                            |                             | US\$ 5,915          |                  |                             | US\$ 5,933          | US\$ 5,885          | US\$                |

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|          |   |             |            |             |             |    |
|----------|---|-------------|------------|-------------|-------------|----|
| Mtg Assn | " | US\$ 19,766 |            | US\$ 19,844 | US\$ 19,702 | US |
| Mtg Assn | " |             | US\$ 4,595 | US\$ 4,652  | US\$ 4,595  | US |
| Mtg Assn | " |             | US\$ 4,982 | US\$ 5,093  | US\$ 4,982  | US |
| Mtg Assn | " |             | US\$ 4,500 | US\$ 4,509  | US\$ 4,500  | US |
| Mtg Assn | " |             | US\$ 5,102 |             |             |    |
| Mtg Assn | " | US\$ 10,467 |            | US\$ 10,477 | US\$ 10,459 | US |
| Mtg Assn | " | US\$ 7,868  |            | US\$ 7,926  | US\$ 7,834  | US |
| Mtg Assn | " | US\$ 14,974 |            | US\$ 14,993 | US\$ 14,931 | US |
| Mtg Assn | " | US\$ 3,943  |            | US\$ 3,957  | US\$ 3,950  | US |
| Mtg Assn | " |             | US\$ 6,500 | US\$ 6,505  | US\$ 6,500  | US |
| Mtg Assn | " |             | US\$ 4,982 | US\$ 5,002  | US\$ 4,982  | US |
| Mtg Assn | " |             | US\$ 8,458 | US\$ 8,542  | US\$ 8,458  | US |
| Mtg Assn | " |             | US\$ 4,997 | US\$ 5,027  | US\$ 4,997  | US |
| Mtg Assn | " |             | US\$ 4,994 | US\$ 5,024  | US\$ 4,994  | US |
| Mtg Assn | " | US\$ 6,511  |            | US\$ 6,514  | US\$ 6,516  | US |
| Mtg Assn | " |             | US\$ 4,368 | US\$ 4,319  | US\$ 4,368  | US |
| Mtg Assn | " |             | US\$ 4,500 |             |             |    |

(Continued)

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| Financial<br>Statement<br>Account | Nature                                 | Beginning<br>Balance<br>Amount<br>(in<br>Thousands) | Acquisition<br>Amount<br>(in<br>Thousands) | Disposal (Note 2)<br>Carrying<br>Value<br>(US\$ in<br>Thousands) | Gross<br>Loss<br>(US\$ in<br>Thousands) |
|-----------------------------------|--|---|--|--|---|
|                                   |  |   |  |  |   |
| Express Co                        | Available-for-sale<br>financial assets | US\$3,452   | US\$                                       | US\$3,466  | US\$3,431                               |
| Honda Fin Corp                    | "                                      |   |  |  |   |
| Corp                              | "                                      | US\$3,092   | US\$ 6,220                                 | US\$6,297  | US\$6,220                               |
| ns Cos Inc                        | "                                      | US\$3,365   |  | US\$3,422  | US\$3,325                               |
| ts P L C                          | "                                      | US\$3,379   |  | US\$3,395  | US\$3,340                               |
| Res Inc                           | "                                      |   | US\$ 4,496                                 | US\$4,575  | US\$4,496                               |
| hattan Corp New                   | "                                      |   | US\$ 3,648                                 |  |   |
| hattan Corp New                   | "                                      | US\$5,077   |  | US\$3,536  | US\$3,565                               |
| Edg Inc                           | "                                      |   | US\$ 3,480                                 |  |   |
| se First Boston                   | "                                      |   | US\$ 4,587                                 | US\$4,591  | US\$4,587                               |
| n Cap Corp                        | "                                      |   | US\$ 3,175                                 | US\$3,105  | US\$3,175                               |
| n Cap Corp                        | "                                      | US\$4,928   |  | US\$4,945  | US\$4,899                               |
| Bank                              | "                                      |   | US\$ 5,900                                 | US\$6,005  | US\$5,900                               |
| lec Co                            | "                                      |   | US\$19,985                                 |  |   |
| nvnt Bk                           | "                                      | US\$3,215   |  | US\$3,217  | US\$3,222                               |
| nvnt Bk                           | "                                      | US\$3,970   |  | US\$3,973  | US\$3,930                               |
| ome Ln Bks                        | "                                      | US\$6,057   |  | US\$6,317  | US\$5,994                               |
| ec Cap Corp Mtn                   | "                                      | US\$7,937   |  | US\$7,964  | US\$7,937                               |
| ec Cap Corp Mtn                   | "                                      | US\$8,759   |  | US\$8,793  | US\$8,716                               |
| ec Cap Corp Mtn                   | "                                      |   | US\$ 4,816                                 | US\$4,816  | US\$4,816                               |
| Finl Inc                          | "                                      | US\$8,282   | US\$ 2,993                                 | US\$8,414  | US\$8,268                               |
| Sachs Group Inc                   | "                                      |   | US\$ 3,250                                 |  |   |
| Sachs Group Inc                   | "                                      | US\$4,989   |  | US\$5,011  | US\$4,941                               |
| inl Svcs Group Inc                | "                                      | US\$3,456   |  | US\$3,471  | US\$3,453                               |
| Medium Term Sr                    | "                                      | US\$5,037   |  | US\$5,023  | US\$5,048                               |
| Fin Corp                          | "                                      | US\$3,205   |  | US\$3,215  | US\$3,182                               |
| Corp                              | "                                      |   | US\$ 3,120                                 |  |   |
| Corp                              | "                                      | US\$3,028   |  | US\$3,028  | US\$3,028                               |
| Corp Mtn                          | "                                      |   | US\$ 4,468                                 | US\$4,469  | US\$4,468                               |
| al Business Machs                 | "                                      | US\$5,096   |  | US\$5,114  | US\$5,066                               |
| Fin Corp Mtn                      | "                                      |   | US\$ 3,496                                 |  |   |
| n Chase + Co                      | "                                      | US\$4,138   |  | US\$4,161  | US\$4,118                               |
|                                   | "                                      | US\$3,298   |  | US\$3,288  | US\$3,310                               |
|                                   | "                                      | US\$4,401   |  | US\$4,435  | US\$4,393                               |

Medium Term Nts Bk

|                      |   |           |            |           |           |      |
|----------------------|---|-----------|------------|-----------|-----------|------|
| Brothers Hldgs Inc   | " | US\$3,150 |            | US\$3,152 | US\$3,150 | US\$ |
| Brothers Hldgs Inc   | " |           | US\$ 3,150 |           |           |      |
| Willsley Corp        | " | US\$8,420 |            | US\$8,487 | US\$8,453 | US\$ |
| Global Global Fdg Li | " |           |            |           |           |      |
|                      |   |           | US\$ 3,647 |           |           |      |
| Merica Bank Na Y     | " | US\$6,403 |            | US\$6,490 | US\$6,437 | US\$ |
| Bank + Co Inc        | " | US\$3,453 |            | US\$3,464 | US\$3,426 | US\$ |
| Bank + Co Inc        | " | US\$4,865 |            | US\$4,880 | US\$4,842 | US\$ |
| Man Life Global Mtn  | " | US\$3,369 |            | US\$3,452 | US\$3,361 | US\$ |
| Man Life Golbal Mtn  | " |           | US\$ 3,325 |           |           |      |
| Manley               | " | US\$2,126 | US\$ 3,337 |           |           |      |
| Manley               | " | US\$3,797 |            | US\$3,790 | US\$3,811 | US\$ |
| Manley               | " | US\$3,682 |            | US\$3,735 | US\$3,684 | US\$ |
| Medium Term Nts      | " | US\$8,998 |            | US\$9,008 | US\$8,949 | US\$ |
| Airtouch Plc         | " | US\$4,449 |            | US\$4,403 | US\$4,477 | US\$ |
| Corp New             | " |           | US\$ 3,100 |           |           |      |
| Corp New             | " |           | US\$ 3,491 | US\$3,484 | US\$3,491 | US\$ |

(Continued)



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| Financial Statement | Account                             | Counter-party | Nature of Relationship | Beginning Balance          | Acquisition                | Disposal (Note 2) |                   |
|---------------------|-------------------------------------|---------------|------------------------|----------------------------|----------------------------|-------------------|-------------------|
|                     |                                     |               |                        | Amount                     | Amount                     | Carrying Value    | Value             |
| Securities Type     | Statement                           |               |                        | Shares/Unit (in thousands) | Shares/Unit (in thousands) | US\$ in thousands | US\$ in thousands |
| Full Name           | Account                             | Counter-party | Relationship           | Shares/Unit (in thousands) | Shares/Unit (in thousands) | US\$ in thousands | US\$ in thousands |
| Up New              | Available-for-sale financial assets |               |                        | US\$2,040                  | US\$ 1,534                 | US\$ 3,563        | US\$ 3,582        |
| Aut Bk Fa           | "                                   |               |                        | US\$3,997                  |                            | US\$ 3,998        | US\$ 4,000        |
| ed asset-backed     |                                     |               |                        |                            |                            |                   |                   |
| ne Mtg Assets Tr    | Available-for-sale financial assets |               |                        |                            | US\$ 3,382                 | US\$ 3,187        | US\$ 3,380        |
| utomobile Rec Tr    | "                                   |               |                        | US\$3,269                  |                            | US\$ 3,196        | US\$ 3,216        |
|                     | "                                   |               |                        | US\$4,300                  |                            | US\$ 4,260        | US\$ 4,350        |
| ml Mtg Inc          | "                                   |               |                        |                            | US\$ 4,591                 |                   |                   |
| oml Mtg Secs Inc    | "                                   |               |                        |                            | US\$ 5,259                 |                   |                   |
| receivables Asset   | "                                   |               |                        | US\$3,243                  |                            | US\$ 3,243        | US\$ 3,232        |
| ulti Asset Exec     | "                                   |               |                        |                            | US\$ 8,998                 |                   |                   |
| ime Auto Rec        | "                                   |               |                        | US\$3,981                  |                            | US\$ 3,995        | US\$ 3,999        |
| ime Auto Receive    | "                                   |               |                        |                            | US\$ 3,500                 |                   |                   |
| Asset Tr            | "                                   |               |                        | US\$8,142                  |                            | US\$ 8,181        | US\$ 8,089        |
| Car Fdg Aesop Llc   | "                                   |               |                        | US\$9,297                  |                            | US\$ 4,493        | US\$ 4,433        |
| irst Boston Mtg     | "                                   |               |                        |                            | US\$ 7,613                 |                   |                   |
| irst Boston Mtg     | "                                   |               |                        |                            | US\$ 7,637                 |                   |                   |
| nk Coml Mtg Tr      | "                                   |               |                        |                            | US\$ 5,188                 |                   |                   |
| to Owner Trust      | "                                   |               |                        | US\$4,324                  |                            | US\$ 4,321        | US\$ 4,310        |
|                     | "                                   |               |                        | US\$4,251                  |                            | US\$ 3,868        | US\$ 4,241        |
| on Motorcycle Tr    | "                                   |               |                        | US\$5,825                  |                            | US\$ 3,933        | US\$ 3,904        |
| g Llc               | "                                   |               |                        | US\$5,319                  |                            | US\$ 5,278        | US\$ 5,284        |
| receivables         | "                                   |               |                        |                            | US\$ 3,373                 | US\$ 3,381        | US\$ 3,373        |
| Receivables Tr      | "                                   |               |                        | US\$3,928                  |                            | US\$ 3,460        | US\$ 3,443        |
| Mtg Tr              | "                                   |               |                        | US\$3,493                  |                            | US\$ 3,177        | US\$ 3,101        |
| Mtg Tr              | "                                   |               |                        |                            | US\$ 3,884                 |                   |                   |
| Master Nt Tr        | "                                   |               |                        |                            | US\$ 4,500                 | US\$ 4,449        | US\$ 4,500        |
| Cr Card Tr Ii       | "                                   |               |                        | US\$7,605                  |                            | US\$ 7,552        | US\$ 7,653        |
| Mtg Invs Inc        | "                                   |               |                        | US\$5,887                  |                            | US\$ 4,630        | US\$ 4,988        |
| receivables         | "                                   |               |                        | US\$3,928                  |                            | US\$ 3,928        | US\$ 3,943        |
| way Owner Tr        | "                                   |               |                        | US\$3,942                  |                            | US\$ 3,961        | US\$ 3,911        |
| Rate Mtg Ln Tr      | "                                   |               |                        |                            | US\$ 3,981                 | US\$ 3,786        | US\$ 3,887        |
| Coml Mtg Tr         | "                                   |               |                        |                            | US\$ 4,171                 |                   |                   |
| 2005 Llc            | "                                   |               |                        | US\$4,103                  |                            | US\$ 3,325        | US\$ 3,338        |
| ner Tr              | "                                   |               |                        |                            | US\$ 4,999                 |                   |                   |

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|                  |  |           |            |            |            |   |
|------------------|--|-----------|------------|------------|------------|---|
| ner Tr           | "                                      | US\$4,238 |            | US\$ 4,260 | US\$ 4,246 | U |
|                  | "                                      |           | US\$ 3,656 |            |            |   |
| ss Thru Ctf Tr   | "                                      |           | US\$ 4,854 | US\$ 3,760 | US\$ 4,048 | U |
| nl Auto Owner Tr | "                                      | US\$4,986 |            | US\$ 3,535 | US\$ 3,515 | U |
| tg Backed Secs   | "                                      |           | US\$ 3,935 |            |            |   |
| tg Backed Secs   | "                                      |           | US\$ 4,008 |            |            |   |
| <u>bonds</u>     |  |           |            |            |            |   |
| reas Nt          | Available-for-sale<br>financial assets |           | US\$42,302 | US\$42,891 | US\$42,302 | U |
| reas Nt          | "                                      |           | US\$ 5,059 | US\$ 5,007 | US\$ 5,059 | U |
| reas Nts         | "                                      |           | US\$60,837 | US\$34,754 | US\$34,896 | U |
| reas Nts         | "                                      |           | US\$ 6,837 | US\$ 7,052 | US\$ 6,837 | U |
| reas Nts         | "                                      |           | US\$ 8,073 | US\$ 3,037 | US\$ 3,036 | U |
| reas Nts         | "                                      |           | US\$33,800 | US\$34,440 | US\$33,800 | U |
| reas Nts         | "                                      |           | US\$25,041 | US\$25,606 | US\$25,041 | U |

(Continued)

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| Securities Type | Financial Statement                 | Counter-party | Nature of Relationship | Beginning Balance | Acquisition    | Disposal (Note 2) |                |
|-----------------|-------------------------------------|---------------|------------------------|-------------------|----------------|-------------------|----------------|
|                 |                                     |               |                        | Amount            | Amount         | Carrying Value    | Value          |
|                 |                                     |               |                        | (in thousands)    | (in thousands) | (in thousands)    | (in thousands) |
| reas Nts        | Available-for-sale financial assets |               |                        | US\$ 11,676       | US\$ 11,676    | US\$ 6,121        | US\$ 6,092     |
| reas Nts        | "                                   |               |                        | US\$ 5,936        |                | US\$ 5,936        | US\$ 5,944     |
| reas Nts        | "                                   |               |                        |                   | US\$ 12,876    | US\$ 13,318       | US\$ 12,876    |
| reas Nts        | "                                   |               |                        |                   | US\$ 6,957     | US\$ 6,935        | US\$ 6,957     |
| reas Nts        | "                                   |               |                        |                   | US\$ 15,113    | US\$ 10,313       | US\$ 10,056    |
| reas Nts        | "                                   |               |                        |                   | US\$ 10,746    | US\$ 10,768       | US\$ 10,746    |
| reas Nts        | "                                   |               |                        |                   | US\$ 5,078     | US\$ 5,170        | US\$ 5,078     |
| reas Nts        | "                                   |               |                        | US\$12,350        |                | US\$ 12,363       | US\$ 12,295    |
| reas Nts        | "                                   |               |                        |                   | US\$109,310    | US\$ 67,657       | US\$ 67,440    |
| reas Nts        | "                                   |               |                        |                   | US\$ 46,901    | US\$ 44,003       | US\$ 43,603    |
| reas Nts        | "                                   |               |                        |                   | US\$ 20,692    | US\$ 21,138       | US\$ 20,692    |
| reas Nts        | "                                   |               |                        |                   | US\$ 34,573    | US\$ 34,574       | US\$ 34,573    |
| reas Nts        | "                                   |               |                        | US\$60,929        |                | US\$ 60,813       | US\$ 61,165    |
| reas Nts        | "                                   |               |                        |                   | US\$ 19,628    | US\$ 19,903       | US\$ 19,628    |
| reas Nts        | "                                   |               |                        |                   | US\$ 26,131    | US\$ 26,501       | US\$ 26,131    |
| reas Nts        | "                                   |               |                        |                   | US\$146,634    | US\$139,925       | US\$138,892    |
| reas Nts        | "                                   |               |                        |                   | US\$ 16,788    | US\$ 16,766       | US\$ 16,788    |
| reas Nts        | "                                   |               |                        |                   | US\$271,758    | US\$271,969       | US\$271,758    |
| reas Nts        | "                                   |               |                        | US\$ 4,009        |                | US\$ 4,019        | US\$ 3,996     |
| reas Nts        | "                                   |               |                        |                   | US\$ 29,438    | US\$ 20,089       | US\$ 19,959    |
| reas Nts        | "                                   |               |                        | US\$56,526        | US\$131,185    | US\$187,636       | US\$187,804    |
| reas Nts        | "                                   |               |                        |                   | US\$ 8,596     | US\$ 8,552        | US\$ 8,596     |
| reas Nts        | "                                   |               |                        |                   | US\$ 14,102    | US\$ 14,203       | US\$ 14,102    |
| s               | "                                   |               |                        | US\$ 4,834        |                | US\$ 4,927        | US\$ 4,827     |
| s               | "                                   |               |                        |                   | US\$ 30,867    | US\$ 31,573       | US\$ 30,867    |
| s               | "                                   |               |                        | US\$ 5,467        |                | US\$ 5,517        | US\$ 5,456     |
| s               | "                                   |               |                        |                   | US\$ 10,362    | US\$ 10,369       | US\$ 10,362    |
| c               | "                                   |               |                        |                   | US\$ 59,595    | US\$ 53,577       | US\$ 53,189    |

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.

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

(Concluded)

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**TABLE 3**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries  
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, 2007  
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Transaction Date | Transaction Amount | Payment Term                 | Counter-party          | Nature of Relationships | Prior Transaction Owner | Transaction of Related Counter-party Relationships | Transfer Date | Amount | Price Referen  |
|------------------|--------------------|------------------------------|------------------------|-------------------------|-------------------------|--|---------------|--------|----------------|
| January 4, 2007  | \$ 198,000         | By the construction progress | Lead Fu Industry Corp. |                         | N/A                     | N/A  | N/A           | N/A    | Public bidding |

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**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, 2007**  
**(Amounts in Thousands of New Taiwan Dollars)**

| Company Name | Related Party      | Nature of Relationships                             | Purchases/<br>Sales | Transaction Details |         |  | Notes/Accounts                           | Ending<br>Balance | Total |
|--------------|--------------------|---|---------------------|---------------------|---------|--|--|-------------------|-------|
|              |                    |   |                     | Amount              | %<br>to | Payment Terms  | Abnormal<br>Transaction<br>Unit<br>Price |                   |       |
| Company      | TSMC-North America | Subsidiary  | Sales               | \$192,846,641       | 61      | Net 30 days after invoice date                                   |  | \$26,626,880      | 60    |
|              | GUC                | Investee with a controlling financial interest      | Sales               | 795,232             |         | Net 30 days after monthly closing                                |  | 74,003            |       |
|              | TSMC-Shanghai      | Subsidiary  | Sales               | 155,799             |         | Net 30 days after monthly closing                                |  |                   |       |
|              | WaferTech          | Indirect subsidiary                                 | Purchases           | 8,774,750           | 18      | Net 30 days after monthly closing                                |  | (784,280)         | 6     |
|              | TSMC-Shanghai      | Subsidiary  | Purchases           | 5,828,541           | 12      | Net 30 days after monthly closing                                |  | (596,581)         | 5     |
|              | SSMC               | Investee accounted for using equity method          | Purchases           | 5,468,410           | 11      | Net 30 days after monthly closing                                |  | (655,029)         | 5     |
|              | VIS                | Investee accounted for using equity method          | Purchases           | 4,188,107           | 9       | Net 30 days after monthly closing                                |  | (838,584)         | 7     |
|              | TSMC-North America | Same parent company                                 | Purchases           | 1,766,788           | 54      | Net 30 days after invoice date/net 45 days after monthly closing |  | (139,402)         | 16    |
|              | VisEra             | Same president                                      | Sales               | 1,050,497           | 31      | Net 45 days after shipping                                       |  | 10,120            | 2     |
|              | OmniVision         | Parent company of director (represented for Xintec) | Sales               | 1,813,412           | 54      | Net 45 days after shipping                                       |  | 431,801           | 84    |

Note: The terms of sales to related parties are not significantly different from

those to third parties. For purchase transactions, prices are determined in accordance with the related contractual agreements and no other similar transaction could be compared with.

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%**  
**OF THE PAID-IN CAPITAL**  
**DECEMBER 31, 2007**  
**(Amounts in Thousands of New Taiwan Dollars)**

| Name | Related Party      | Nature of Relationships                                   | Ending<br>Balance | Turnover       | Amounts     | Overdue | Action Taken                            |
|------|--------------------|---|-------------------|----------------|-------------|---------|---|
|      |                    |   |                   | Days<br>(Note) |             |         |   |
|      | TSMC-North America | Subsidiary  | \$26,725,765      | 41             | \$8,164,297 |         | Accelerate demand on account receivable |
|      | TSMC-Shanghai      | Subsidiary  | 151,037           |                |             |         |   |
|      | GUC                | Investee with a<br>controlling financial<br>interest      | 118,749           |                | 8,081       |         | Accelerate demand on account receivable |
|      | VisEra             | Same president  | 10,120            | 69             | 1,075       |         | Accelerate demand on account receivable |
|      | OmniVision         | Parent company of<br>director<br>(represented for Xintec) | 431,801           | 43             |             |         |   |

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



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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries  
 NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE  
 COMPANY EXERCISES SIGNIFICANT INFLUENCE  
 DECEMBER 31, 2007  
 (Amounts in Thousands of New Taiwan Dollars)**

| Investee Company | Location                        | Main Businesses and Products   | Original Investment Amount |                   | Balance as of December 31, 2007 |                         |                         | Net Income (Losses) of the Investee |
|------------------|---------------------------------|--|----------------------------|-------------------|---------------------------------|-------------------------|-------------------------|-------------------------------------|
|                  |                                 |  | December 31, 2007          | December 31, 2006 | Shares (in Thousands)           | Percentage of Ownership | Carrying Value (Note 1) |                                     |
| Global           | Tortola, British Virgin Islands | Investment activities  | \$42,327,245               | \$42,327,245      | 1                               | 100                     | \$44,204,188            | \$2,321,568                         |
| International    | 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                     | 27,688,565              | 562,155                             |
|                  | Hsin-Chu, Taiwan                | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 13,047,681                 | 8,119,816         | 616,240                         | 36                      | 11,024,568              | 4,321,071                           |
|                  | Singapore                       | Fabrication and supply of integrated circuits  | 8,840,895                  | 8,840,895         | 463                             | 39                      | 9,092,741               | 3,552,556                           |
| -Shanghai        | Shanghai, China                 | Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers | 12,180,367                 | 12,180,367        |                                 | 100                     | 8,622,715               | (959,387)                           |
| Partners         | Tortola, British Virgin Islands | Investment activities  | 10,350                     | 10,350            | 300                             | 100                     | 4,734,180               | 302,505                             |
| -North America   | San Jose, California, U.S.A.    | Sales and marketing of integrated circuits and semiconductor devices   | 333,718                    | 333,718           | 11,000                          | 100                     | 2,255,647               | 253,276                             |
|                  |                                 |  | 1,357,890                  |                   | 91,703                          | 43                      | 1,501,521               | 501,174                             |

|              |                                  |  |           |           |        |     |           |          |
|--------------|----------------------------------|--|-----------|-----------|--------|-----|-----------|----------|
|              | Taoyuan,<br>Taiwan               | Wafer level chip size packaging<br>service   |           |           |        |     |           |          |
| II           | Cayman<br>Islands                | Investing in new start-up<br>technology companies  | 1,095,622 | 785,465   |        | 98  | 1,170,841 | 140,497  |
| III          | Cayman<br>Islands                | Investing in new start-up<br>technology companies  | 973,459   | 243,545   |        | 98  | 906,536   | (41,533) |
|              | Hsin-Chu,<br>Taiwan              | Researching, developing,<br>manufacturing, testing and<br>marketing of integrated circuits | 386,568   | 386,568   | 42,572 | 37  | 823,552   | 732,585  |
| ing Alliance | Cayman<br>Islands                | Investing in new start-up<br>technology companies  | 1,019,042 | 1,418,717 |        | 99  | 467,873   | 137,202  |
| erng         | Taipei,<br>Taiwan                | Investment activities  | 300,000   | 300,000   |        | 36  | 173,429   | 59,407   |
| uey          | Taipei,<br>Taiwan                | Investment activities  | 300,000   | 300,000   |        | 36  | 171,658   | 58,751   |
| -Japan       | Yokohama,<br>Japan               | Marketing activities   | 83,760    | 83,760    | 6      | 100 | 104,929   | 3,531    |
| -Europe      | Amsterdam,<br>the<br>Netherlands | Marketing activities   | 15,749    | 15,749    |        | 100 | 88,702    | 31,366   |
| -Korea       | Seoul,<br>Korea                  | Marketing activities   | 13,656    | 13,656    | 80     | 100 | 16,436    | 2,140    |

Note 1: The treasury stock is deducted from the carrying value.

Note 2: Equity in earnings/losses of investees include the effect of unrealized gross profit from affiliates.

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries  
 INFORMATION OF INVESTMENT IN MAINLAND CHINA  
 FOR THE YEAR ENDED DECEMBER 31, 2007**

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

| Investee Company                   | Main<br>Businesses<br>and Products   | Total Amount of<br>Paid-in Capital<br>(RMB in<br>Thousand) | Method<br>of Investment<br>(Note 1) | Accumulated   | Investment                                   | Accumulated   | Equity<br>in the<br>Earnings<br>(Losses)<br>(Note 2) | Accumulated<br>Carrying<br>Value<br>as of<br>December<br>31,<br>2007 | Inward<br>Remittance<br>of<br>Earnings<br>as<br>of<br>December<br>31,<br>2007 |                               |
|------------------------------------|--|--|-------------------------------------|---|--|---|--|--|---|-------------------------------|
|                                    |  |  |                                     | Outflow of<br>Investment<br>from<br>Taiwan as of<br>January 1,<br>2007<br>(US\$ in<br>Thousand) | Flows<br>Outflow<br>(US\$<br>in<br>Thousand) | Outflow of<br>Investment<br>from<br>Taiwan as of<br>December 31,<br>2007<br>(US\$ in<br>Thousand) |  |  |   | Percentage<br>of<br>Ownership |
| TSMC (Shanghai)<br>Company Limited | Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers | \$12,180,367<br>(RMB3,070,623)                             | (Note 1)                            | \$12,180,367<br>(US\$371,000)   | \$   | \$12,180,367<br>(US\$371,000)   | 100%   | \$(957,835)  | \$8,622,715   | \$                            |

**Accumulated Investment in Mainland**

**China as of December 31, 2007  
 (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 reviewed  
financial  
statements.

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)  
A. FOR THE YEAR ENDED DECEMBER 31, 2007

| No.               | Company Name | Counter Party | Nature of Relationship<br>(Note 1) | Intercompany Transactions                          |               | Percentage of Consolidated Total Gross Sales or Total Assets<br>(Note 2) |
|-------------------|--------------|---------------|------------------------------------|--|---------------|--|
|                   |              |               |                                    | Financial Statements Item                          | Amount        |  |
|                   |              |               |                                    | Sales  | \$192,846,641 | 59%  |
|                   |              |               |                                    | Receivables from related parties                   | 26,626,880    | 5%   |
|                   |              | TSMC-NA       | 1                                  | Other receivables from related parties             | 98,885        |  |
|                   |              |               |                                    | Payables to related parties                        | 13,392        |  |
|                   |              |               |                                    | Sales  | 155,799       |  |
|                   |              |               |                                    | Purchases  | 5,828,541     | 2%   |
|                   |              |               |                                    | Gain on disposal of property, plant and equipment  | 216,267       |  |
|                   |              | TSMC-Shanghai | 1                                  | Technical service income                           | 121,771       |  |
|                   |              |               |                                    | Other receivables from related parties             | 151,037       |  |
|                   |              |               |                                    | Payables to related parties                        | 596,581       |  |
|                   |              |               |                                    | Deferred credits                                   | 510,564       |  |
|                   |              |               |                                    | Marketing expenses commission                      | 220,858       |  |
|                   |              | TSMC-Japan    | 1                                  | Payables to related parties                        | 18,449        |  |
| 0                 | TSMC         | TSMC-Europe   | 1                                  | Marketing expenses commission                      | 316,748       |  |
|                   |              |               |                                    | Payables to related parties                        | 37,046        |  |
|                   |              | TSMC-Korea    | 1                                  | Marketing expenses commission                      | 26,818        |  |
|                   |              |               |                                    | Sales  | 795,232       |  |
|                   |              |               |                                    | General and administrative expenses rental expense | 6,139         |  |
| Table of Contents | GUC          |               | 1                                  |  |               | 245  |

|   |                    |   |                                   |           |    |
|---|--------------------|---|-----------------------------------|-----------|----|
|   |                    |   | Research and development expenses | 56,887    |    |
|   |                    |   | Receivables from related parties  | 74,003    |    |
|   |                    |   | Payables to related parties       | 7,411     |    |
|   | TSMC Technology    | 1 | Payables to related parties       | 39,403    |    |
|   |                    |   | Research and development expenses | 354,423   |    |
|   | WaferTech          | 1 | Sales                             | 10,301    |    |
|   |                    |   | Purchases                         | 8,774,750 | 3% |
|   |                    |   | Payables to related parties       | 784,280   |    |
|   | TSMC Canada        | 1 | Research and development expenses | 129,665   |    |
| 1 | TSMC International | 3 | Deferred royalty income           | 640,658   |    |
| 2 | TSMC Partners      | 3 | Other receivables                 | 9,901,544 | 2% |
|   |                    |   | Deferred revenue                  | 8,773,454 | 2% |
|   |                    |   | Purchases                         | 1,766,788 | 1% |
| 3 | GUC                | 3 | Manufacturing overhead            | 189,410   |    |
|   |                    |   | Payables to related parties       | 139,402   |    |
|   | GUC-NA             | 3 | Operating expenses                | 60,010    |    |

Note 1: No. 1 represents the transactions from parent company to subsidiary.  
No. 3 represents the transactions between subsidiaries.

Note 2: The terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices are determined in accordance with mutual agreements.



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B. FOR THE YEAR ENDED DECEMBER 31, 2006

| No. | Company Name | Counter Party | Nature of Relationship<br>(Note 1) | Intercompany Transactions                               |                | Percentage of Consolidated Total<br>Gross Sales or Total Assets<br>(Note 2) |
|-----|--------------|---------------|------------------------------------|---|----------------|---|
|     |              |               |                                    | Financial Statements Item                               | Amount         |   |
|     |              |               |                                    | Sales   | \$ 190,459,073 | 60%   |
|     |              |               |                                    | Receivables from related parties                        | 16,461,956     | 3%  |
|     |              | TSMC-NA       | 1                                  | Other receivables from related parties                  | 59,547         |   |
|     |              |               |                                    | Payables to related parties                             | 27,455         |   |
|     |              |               |                                    | Sales   | 61,951         |   |
|     |              |               |                                    | Purchases   | 4,405,843      | 1%  |
|     |              |               |                                    | Gain on disposal of property, plant and equipment       | 179,498        |   |
|     |              |               |                                    | Technical service income                                | 98,797         |   |
|     |              | TSMC-Shanghai | 1                                  | Proceeds from disposal of property, plant and equipment | 401,561        |   |
|     |              |               |                                    | Other receivables from related parties                  | 123,853        |   |
|     |              |               |                                    | Payables to related parties                             | 478,714        |   |
|     |              |               |                                    | Deferred credits  | 723,661        |   |
| 0   | TSMC         |               |                                    | Marketing expenses commission                           | 254,758        |   |
|     |              | TSMC-Japan    | 1                                  | Payables to related parties                             | 20,295         |   |
|     |              |               |                                    | Marketing expenses commission                           | 236,454        |   |
|     |              | TSMC-Europe   | 1                                  | Payables to related parties                             | 22,158         |   |
|     |              |               |                                    | Sales   | 755,710        |   |
|     |              |               |                                    | General and administrative expenses rental expense      | 14,606         |   |
|     |              | GUC           | 1                                  | Research and development expenses                       | 39,421         |   |
|     |              |               |                                    |   | 155,216        |   |



|   |                    |   |  |            |    |
|---|--------------------|---|--|------------|----|
|   |                    |   | Receivables from related parties       |            |    |
|   |                    |   | Payables to related parties            | 2,117      |    |
|   |                    |   | Other receivables from related parties | 3,785      |    |
|   | TSMC Technology    | 1 | Payables to related parties            | 42,389     |    |
|   |                    |   | Sales                                  | 34,517     |    |
|   | WaferTech          | 1 | Purchases                              | 12,530,552 | 4% |
|   |                    |   | Payables to related parties            | 864,733    |    |
|   | TSMC Development   | 3 | Interest income                        | 8,029      |    |
| 1 | TSMC International | 3 | Deferred royalty income                | 643,679    |    |
|   | TSMC Technology    | 3 |  |            |    |
| 2 | TSMC Partners      | 3 | Other receivables                      | 10,003,652 | 3% |
|   | TSMC International | 3 | Deferred revenue                       | 8,814,830  | 3% |
| 3 | TSMC Technology    | 3 | Receivables from related parties       | 1,366      |    |
|   | WaferTech          | 3 | Purchases                              | 920,045    |    |
| 4 | GUC                | 3 | Manufacturing overhead                 | 330,129    |    |
|   | TSMC-NA            | 3 | Payables to related parties            | 301,507    |    |
|   | GUC-NA             | 3 | Operating expenses                     | 41,984     |    |

Note 1: No. 1 represents the transactions from parent company to subsidiary.  
No. 3 represents the transactions between subsidiaries.

Note 2: The terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices are determined in accordance with mutual agreements.

(Concluded)

